

An American flag is flying in the foreground, partially obscuring a tall, modern skyscraper with a grid of windows. The sky is bright and clear.

# FIRM CAPITAL APARTMENT REIT

CAPITAL PRESERVATION • DISCIPLINED INVESTING

# FINANCIAL STATEMENTS

FIRST QUARTER 2021  
MARCH 31, 2021

Condensed Consolidated Interim Financial Statements of

**FIRM CAPITAL APARTMENT REAL ESTATE  
INVESTMENT TRUST**

For the Three Months Ended March 31, 2021 and 2020

(Expressed in US Dollars)

The accompanying unaudited condensed consolidated interim financial statements of Firm Capital Apartment Real Estate Investment Trust for the three months ended March 31, 2021 have been prepared by and are the responsibility of management. These unaudited condensed consolidated interim financial statements, together with the accompanying notes, have been reviewed and approved by members of Firm Capital Apartment Real Estate Investment Trust's audit committee. In accordance with National Instrument 51 – 102 Firm Capital Apartment Real Estate Investment Trust discloses that these unaudited condensed consolidated interim financial statements have not been reviewed by Firm Capital Apartment Real Estate Investment Trust's auditors.

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Balance Sheets

(Expressed in US Dollars)

(Unaudited)

	Notes	March 31, 2021	December 31, 2020
<b>Assets</b>			
Current Assets			
Cash and Cash Equivalents		\$ 7,574,048	\$ 2,909,258
Restricted Cash		579,413	657,148
Accounts Receivable		384,824	1,886,414
Prepaid Expenses and Other Assets		163,155	167,645
<b>Total Current Assets</b>		<b>8,701,441</b>	<b>5,620,465</b>
Non-Current Assets			
Investment Properties	3	49,996,398	49,585,840
Equity Accounted Investments	4	21,631,711	19,596,539
Preferred Investments	4	22,267,289	28,536,024
Preferred Capital Investments	5	5,519,343	5,528,968
<b>Total Non-Current Assets</b>		<b>99,414,741</b>	<b>103,247,371</b>
<b>Total Assets</b>		<b>\$ 108,116,182</b>	<b>\$ 108,867,836</b>
<b>Liabilities and Unitholders' Equity</b>			
Current Liabilities			
Accounts Payable and Accrued Liabilities	12	2,794,900	2,864,903
Mortgages Payable	7,8	375,850	373,540
Unit Based Liabilities	9(c)	597,510	336,830
<b>Total Current Liabilities</b>		<b>3,768,259</b>	<b>3,575,273</b>
Non-Current Liabilities			
Mortgages Payable	7,8	17,113,881	17,199,635
Convertible Debentures Payable	6,8	14,711,219	12,169,023
<b>Total Non-Current Liabilities</b>		<b>31,825,100</b>	<b>29,368,658</b>
<b>Total Liabilities</b>		<b>35,593,360</b>	<b>32,943,931</b>
<b>Unitholders' Equity</b>	9	<b>72,522,822</b>	<b>75,923,905</b>
<b>Total Liabilities and Unitholders' Equity</b>		<b>\$ 108,116,182</b>	<b>\$ 108,867,836</b>

Subsequent Events

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See accompanying Notes to the Condensed Consolidated Interim Financial Statements

(signed) "Geoffrey Bledin"  
Geoffrey Bledin  
Chairman & Trustee

(signed) "Sandy Poklar"  
Sandy Poklar  
President & CEO

## FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars)

(Unaudited)

		Three Months Ended	
	Notes	March 31, 2021	March 31, 2020
<b>Net Rental Income</b>			
Rental Revenue		\$ 1,055,437	\$ 1,070,855
Property Operating Expenses	13	(555,660)	(482,896)
		499,777	587,960
<b>Income from Investments</b>			
Income from Equity Accounted Investments	4	176,203	132,351
Income from Preferred Investments	4	685,323	538,675
Income from Preferred Capital Investments	5	127,363	122,458
		988,889	793,485
<b>Expenses</b>			
General and Administrative	13	(498,399)	(468,124)
Finance Costs	13	(481,319)	(429,345)
		(979,718)	(897,469)
<b>Net Income Before Fair Value Adjustments</b>		<b>\$ 508,948</b>	<b>\$ 483,975</b>
<b>Fair Value Adjustments</b>			
Investment Properties	3	298,300	-
Equity Accounted Investments	4	799,205	(1,768,263)
Preferred Investments	4	(1,792,485)	-
Convertible Debentures	6,8	(2,374,126)	848,363
Unit Based Recovery	9(d),(e),(f)	(260,680)	575,026
Foreign Exchange (Loss)/Gain	14	(125,079)	972,210
		(3,454,865)	627,335
<b>Net Income and Comprehensive Income</b>		<b>\$ (2,945,917)</b>	<b>\$ 1,111,310</b>

See accompanying Notes to the Condensed Consolidated Interim Financial Statements

## FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars)

(Unaudited)

	Notes	Trust Units	Deficit	Balance
Unitholders' Equity, December 31, 2019		82,931,506	(17,808,780)	65,122,724
Revaluation of Warrants and Options	9(e),(f)	-	(979,891)	(979,891)
Balance at January 1, 2020		82,931,506	(18,788,671)	64,142,833
Issuance of Units, Net of Issuance Costs	9(a)(i)	11,546,448	-	11,546,448
Net Income and Comprehensive Income		-	1,111,310	1,111,310
Distributions	9(g)	-	(503,151)	(503,151)
Issuance of Units from Distribution Reinvestment Plan	9(b)	21,623	-	21,623
Unitholder's Equity, March 31, 2020		94,499,577	(18,180,513)	76,319,065
Issuance of Units, Net of Issuance Costs	9(a)(i)	(22,667)	-	(22,667)
Warrants Exercised	9(a)(ii)	8,500	-	8,500
Normal Course Issuer Bid	9(a)(iii)	(721,004)	-	(721,004)
Trust Unit Repurchase	9(a)(iv)	(2,744,200)	-	(2,744,200)
Net Income and Comprehensive Income		-	4,493,044	4,493,044
Distributions	9(g)	-	(1,408,833)	(1,408,833)
Balance at December 31, 2020		91,020,205	(15,096,300)	75,923,905
Net Income and Comprehensive Income		-	(2,945,917)	(2,945,917)
Distributions	9(g)	-	(455,166)	(455,166)
Unitholders' Equity, March 31, 2021		\$ 91,020,205	\$ (18,497,383)	\$ 72,522,822
Trust Units Outstanding				7,714,675

See accompanying Notes to the Condensed Consolidated Interim Financial Statements

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars)

(Unaudited)

For the three months ended	Notes	Three Months Ended	
		March 31, 2021	March 31, 2020
Cash Flow from (used in) Operating Activities			
Net Income		\$ (2,945,917)	\$ 1,111,310
Add (Deduct):			
Fair Value Adjustments			
Investment Properties	3	(298,300)	-
Equity Accounted Investments	4	(799,205)	1,768,263
Provision for Impairment of Preferred Investments	4	1,792,485	-
Convertible Debentures	6,8	2,374,126	(848,363)
Unit Based Recovery	9(d),(e),(f)	260,680	(575,026)
Finance Cost Amortization	7,8,13	11,499	11,499
Foreign Exchange Loss/(Gain) on Convertible Debentures	6,8,14	168,070	(1,139,636)
Equity Accounted Investments	4	(131,106)	(22,057)
Preferred Investments	4	(260,591)	(221,400)
Preferred Capital Investments	5	9,625	(60,576)
Changes in Non-Cash Operating Working Capital:			
Accounts Receivable		1,501,590	(46,204)
Prepaid Expenses and Other Assets		4,490	14,326
Accounts Payable and Accrued Liabilities	12	(70,003)	138,032
<b>Total Operating Activities</b>		<b>1,617,443</b>	<b>130,169</b>
Cash Flows from (used in) Investing Activities			
Equity Accounted Investments	4	(1,104,862)	(1,360,915)
Preferred Investments	4	(399,980)	(3,616,802)
Redemption of Preferred Equity	4	5,136,821	-
Capital Expenditures on Investment Properties	3	(112,258)	(81,428)
<b>Total Investing Activities</b>		<b>3,519,722</b>	<b>(5,059,145)</b>
Cash Flows from (used in) Financing Activities			
Issuance of Units, Net of Issuance Costs	9(a)(i)	-	11,546,448
Issuance of Units from Distribution Reinvestment Plan	9(b)	-	21,623
Distributions Paid	9(g)	(455,166)	(503,151)
Repayment of Mortgages	7,8	(94,942)	(88,951)
<b>Total Financing Activities</b>		<b>(550,108)</b>	<b>10,975,969</b>
Increase in Cash, Cash Equivalents and Restricted Cash		4,587,056	6,046,994
Cash and Cash Equivalents, Beginning of Period		3,566,405	7,040,520
Cash and Cash Equivalents, End of Period		8,153,461	13,087,514
Consisting of:			
Cash and Cash Equivalents		7,574,048	12,512,768
Restricted Cash		579,413	574,746

See accompanying Notes to the Condensed Consolidated Interim Financial Statements

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

## 1. Nature of operations

The predecessor entity, Firm Capital American Realty Partners Corp. (the “Corporation”) was incorporated under the Business Corporations Act (Ontario) on March 19, 2007. On January 1, 2020 (the “Arrangement date”), the Corporation completed its plan of arrangement (the “Arrangement”) to convert the Corporation into a Real Estate Investment Trust (the “Trust”) and began trading under symbols FCA.U and FCA.UN. Under the terms of the Arrangement, each outstanding common share of the Corporation was exchanged for one unit of the Trust. The address of the Trust’s registered office is 163 Cartwright Avenue, Toronto, Ontario, M6A 1V5. The consolidated financial statements of the Trust as of January 1, 2020 were not materially changed on completion of the Arrangement.

On September 21, 2020, the Trust completed a name change to “Firm Capital Apartment Real Estate Investment Trust”.

The Trust is a U.S. focused real estate investment trust that pursues multi-residential income producing real estate and related debt investments on both a wholly owned and joint venture basis. The Trust has ownership interests in a total of 1,846 apartment units diversely located in Florida, Connecticut, Texas, New York, New Jersey, Georgia and Maryland.

The unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on May 13, 2021.

## 2. Basis of preparation

The significant accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those described in note 2 and 3 of the Trust’s audited consolidated financial statements for the year ended December 31, 2020.

## 3. Investment properties

	March 31, 2021	December 31, 2020
<b>Balance, beginning of period</b>	\$ 49,585,840	\$ 48,167,177
Building improvements	112,258	329,832
Fair value adjustments to investment properties	298,300	1,088,831

The investment properties as at March 31, 2021 consist of 311 multi-family apartment units in three buildings located in Florida and Texas.

The Trust determined the fair value of the investment properties using a combination of an internally managed valuation model and property appraisals. The key valuation assumptions for the properties are set out in the following table:

	March 31, 2021	December 31, 2020
Capitalization rate	4.50%	4.50%

In light of the COVID-19 pandemic, the Trust has updated its assumptions used in determining the fair value of investment properties. Capitalization rates used in the valuation of investment properties, equity accounted and preferred investments as at March 31, 2021 are based on current market data available.

The Trust continues to review its cash flow projections and the fair value of its real estate portfolio in these challenging times. Capitalization rates could change materially as additional market data becomes available. As such, significant changes in assumptions concerning rental income, occupancy rates, tenant inducements and future market rents could negatively impact future real estate valuations and the Trust’s overall operations as COVID-19 continues.



# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

The fair values of the Trust's investment properties are sensitive to changes in key valuation assumptions. Changes in capitalization rates would result in a change in fair value of the Trust's investment properties as set out in the following table:

	<b>March 31, 2021</b>
	\$
Capitalization rate increase by 25 basis points	(2,627,000)
Capitalization rate decrease by 25 basis points	2,937,000

#### 4. Equity accounted and preferred investments

The Trust has invested in the following equity accounted and preferred investments.

*(In \$millions unless otherwise stated).*

Location	Units	Investment Properties	Ownership %	Pro- Rata Ownership of Equity		Preferred Investment	Total Investment	Preferred Yield
				Investment Properties	Accounted Investment			
New York City	129	\$ 31.5	22.8%	\$ 7.2	\$ -	\$ 4.3	\$ 4.3	8%
Brentwood, MD	118	19.2	25.0%	4.8	2.1	-	2.1	8%
Irvington, NJ	189	22.9	50.0%	11.4	3.4	2.7	6.1	9%
Houston, TX	235	24.2	50.0%	12.1	4.8	3.7	8.5	9%
Bronx, NY	132	25.7	50.0%	12.9	3.5	-	3.5	-
Hartford, CT	109	13.6	50.0%	6.8	1.2	1.3	2.5	8%
Canton, GA	138	19.6	50.0%	9.8	1.7	2.7	4.4	8%
Houston, TX	250	25.7	50.0%	12.8	1.2	3.5	4.7	9%
Hyattsville, MD	235	38.6	50.0%	19.3	3.6	4.1	7.7	8%
<b>Total/ Weighted Average</b>	<b>1,535</b>	<b>\$ 220.9</b>	<b>43.9%</b>	<b>\$ 97.1</b>	<b>\$ 21.6</b>	<b>\$ 22.3</b>	<b>\$ 43.9</b>	<b>8.4%</b>

The Trust has significant influence over these equity accounted and preferred investments as further outlined below:

New York City: Certain officers and trustees of the Trust have an indirect interest or management oversight of approximately 14.6% of the preferred equity and 7.3% of the common equity;

Brentwood, Maryland: Certain officers and trustees of the Trust have an indirect interest or management oversight of approximately 20.0% of the common equity.

Outlined below are the details of the Trust's net investment in the equity accounted investment comprised of common equity, accounted for using the equity method and preferred equity, accounted as preferred investment loans carried at amortized cost, along with the balance sheet and statement of income (each at 100% of the underlying property) and income allocation from the equity accounted and preferred investments as of March 31, 2021 and December 31, 2020 and for the three months ended March 31, 2021 and 2020:

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

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<b>Equity Accounted and Preferred Investments, December 31, 2019</b>	<b>\$ 38,465,367</b>
Investments	
- Equity Accounted Investments	1,360,915
- Preferred Investments	3,616,802
Income Earned	
- Equity Accounted Investments	132,351
- Fair Value Adjustments	(1,768,263)
- Preferred Investments	538,675
- Less: Distributions and interest received	(427,567)
<b>Equity Accounted and Preferred Investments, March 31, 2020</b>	<b>\$ 41,918,278</b>
Investments	
- Equity Accounted Investments	6,926,262
- Preferred Investments	1,408,828
- Disposition of Equity Accounted Investments	(1,672,279)
- Redemption of Preferred Investments	(2,694,769)
Income Earned	
- Equity Accounted Investments	368,151
- Fair Value Adjustments	1,527,995
- Preferred Investments	1,836,873
- Less: Distributions and interest received	(1,486,778)
<b>Equity Accounted and Preferred Investments, December 31, 2020</b>	<b>\$ 48,132,563</b>
Investments	
- Equity Accounted Investments	1,104,862
- Preferred Investments	399,980
- Redemption of Preferred Investments	(5,136,821)
Income Earned	
- Equity Accounted Investments	176,203
- Fair Value Adjustments	799,205
- Preferred Investments	685,323
- Less: Provision for Impairment of Preferred Investments	(1,792,485)
- Less: Distributions and interest received	(469,830)
<b>Equity Accounted and Preferred Investments, March 31, 2021</b>	<b>\$ 43,899,000</b>

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# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

	March 31, 2021	December 31, 2020
<b>Assets</b>		
Cash	\$ 928,053	\$ 709,568
Restricted Cash	3,401,923	3,036,713
Accounts Receivable	1,110,725	962,889
Other Assets	746,332	816,782
Investment Properties	220,922,955	221,398,580
	<b>\$ 227,109,987</b>	<b>\$ 226,924,532</b>
<b>Liabilities</b>		
Accounts Payable	2,260,989	2,754,339
Security Deposits	834,581	826,920
Mortgages	149,574,902	145,514,689
	<b>\$ 152,670,472</b>	<b>\$ 149,095,949</b>
<b>Equity</b>		
Retained Earnings	\$ 10,341,354	\$ 11,665,219
Preferred Equity	31,845,607	35,935,735
Common Equity	32,252,554	30,227,629
	<b>\$ 74,439,515</b>	<b>\$ 77,828,582</b>
	<b>\$ 227,109,987</b>	<b>\$ 226,924,532</b>
<b>Investment Allocation for the Trust</b>		
Equity Accounted Investments	\$ 21,631,711	\$ 19,596,539
Preferred Investments	22,267,289	28,536,024
	<b>\$ 43,899,000</b>	<b>\$ 48,132,563</b>
	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Net Income</b>		
Rental Revenue	\$ 5,243,405	\$ 5,158,873
Property Operating Expenses	(2,757,136)	(2,532,694)
<b>Net Rental Income</b>	<b>\$ 2,486,269</b>	<b>\$ 2,626,179</b>
General & Administrative	(23,144)	(25,645)
Interest Expense	(1,621,435)	(1,568,154)
Fair Value Adjustments	(1,206,222)	(4,698,934)
<b>Net Income Before Interest from Preferred Investments</b>	<b>\$ (364,533)</b>	<b>\$ (3,666,553)</b>
Less: Interest from Preferred Investments	(959,333)	(731,974)
<b>Net Income</b>	<b>\$ (1,323,866)</b>	<b>\$ (4,398,527)</b>
<b>Income Earned by the Trust</b>		
Equity Accounted Investments	\$ 176,203	\$ 132,351
Fair Value Adjustments	799,205	(1,768,263)
Preferred Investments	685,323	538,675
Provision for Impairment of Preferred Investments	(1,792,485)	-
	<b>\$ (131,754)</b>	<b>\$ (1,097,238)</b>

On January 31, 2020, the Trust closed an equity accounted and preferred investment to acquire a 250 unit multi-family residential building located in Houston, TX (the "Woodglen Acquisition"). The purchase price for 100% of the Woodglen Acquisition was \$27.9 million (including transaction costs). The Woodglen Acquisition was financed, in part with a \$22.1 million, 4.6% first mortgage due on February 9, 2023. The Trust contributed \$3.4 million (100% ownership) of preferred equity yielding 8% and \$1.2 million of common equity representing a 50% ownership interest in the investment.

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

On September 22, 2020, the Trust closed an equity accounted and preferred investment to acquire a 235 unit multi-family residential portfolio located in Hyattsville, MD (the “North Pointe Acquisition”). The purchase price for 100% of the North Point Acquisition was \$40.5 million (including transaction costs). The North Point Acquisition was financed, in part with a \$29.7 million, 3.0% first mortgage due on September 22, 2032. The Trust contributed \$4.0 million of preferred equity yielding 8% and \$3.4 million of common equity representing a 50% ownership interest in the investment.

On December 23, 2020, the Trust completed a sale of its interest in fourteen multi-family buildings located in Bridgeport, Connecticut to its joint venture partner (the “Bridgeport Sale”). The Trust received net proceeds of approximately \$4.5 million from the Bridgeport Sale consisting of a repayment of its preferred equity (inclusive of accrued interest) of \$2.8 million and \$1.7 million of common equity, respectively.

On February 25, 2021, the first mortgage on the Bronx, NY equity accounted investment was refinanced for a total gross proceeds of \$21.6 million. With the \$3.1 million net proceeds received from the refinancing and the additional \$2.0 million invested by equity accounted investors, the \$5.1 million of Preferred Equity was repaid. The new mortgage has a 3.51% interest rate with a 12-year term amortizing over 30 years.

The Trust establishes its loss provisions applicable to its preferred investments using a 12 month ECL approach. Investments with a low credit risk are assigned to stage 1, increased credit risk to stage 2 and where in default to stage 3. The determination of significant increase in credit risk considers different factors which vary based on the investment. The Trust assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and certain criteria are met which are specific to the individual borrower and underlying asset, based on judgement.

As each reporting date, the Trust assesses the borrower’s ability to make contractual payments based on current market conditions. As at March 31, 2021, based on the impact of the COVID-19 pandemic, the Trust updated its valuation model and recorded an impairment of preferred investments of \$1,792,485 (2020 - \$nil).

Preferred investments, associated allowance for losses and provision for impairment on preferred investments accounted at amortised cost at March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021			December 31, 2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Preferred investments	\$ 17,958,183	\$ -	\$ 6,337,309	\$ 22,760,425	\$ -	\$ 5,979,670
Allowance for losses of preferred investments	-	-	(235,718)	-	-	(204,071)
Provision for impairment of preferred investments	-	-	(1,792,485)	-	-	-
<b>Preferred Investments, net of allowances</b>	<b>\$ 17,958,183</b>	<b>\$ -</b>	<b>\$ 4,309,106</b>	<b>\$ 22,760,425</b>	<b>\$ -</b>	<b>\$ 5,775,599</b>

## 5. Preferred capital investments

On December 18, 2017, the Trust closed a participation of \$2.5 million in a \$12.0 million preferred capital loan (the “New York Preferred Capital”) to fund the acquisition of a portfolio of three apartment buildings located in New York, New York. The New York Preferred Capital earns an interest rate of 12% per annum during its initial term of three years and, if the term is extended for a further two years, at an interest rate thereafter that is the greater of 13% or London Interbank Offered Rate (“LIBOR”) plus 10% per annum. The investment yield is interest only and the loan may be repaid by the borrower prior to maturity in whole or in part upon 30 days prior written notice.

On September 24, 2018, \$2.5 million of the New York Preferred Capital was repaid leaving a principal balance of \$9.5 million. Subsequently, on June 5, 2019, an additional \$1.0 million was advanced leaving

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

a total principal balance of \$10.5 million. As at March 31, 2021, the Trust's pro-rata principal balance was \$2.5 million.

On July 1, 2020, the New York Preferred Capital loan was extended and will mature on January 1, 2023 earning 12% interest of which 9% will be paid monthly while the remainder will be paid on maturity.

On November 15, 2019, the Trust closed on a participation of \$3.0 million in a \$10.0 million preferred capital loan (the "Houston Preferred Capital") for a portfolio of five apartment buildings located in Houston, Texas. The Houston Preferred Capital earns an interest rate of 12% per annum during its initial term of two years, following which, if the term is extended, it earns an interest rate of 18% per annum. As at March 31, 2021, the Trust's pro-rata principal balance was \$3.0 million.

The Trust categorizes its preferred capital investments using a 12 month expected credit loss approach. Investments with a low credit risk are assigned to stage 1, increased credit risk to stage 2 and an where in default to stage 3. The determination of significant increase in credit risk takes into account different factors which vary based on the investment. The Trust assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and certain criteria are met which are specific to the individual borrower and underlying asset, based on judgement.

Preferred capital investments, associated allowance for losses on preferred capital investments accounted at amortised cost at March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021			December 31, 2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Preferred capital investments	\$ 3,030,798	\$ -	\$ 2,581,660	\$ 3,030,140	\$ -	\$ 2,568,670
Allowance for losses of preferred capital investments	-	-	(93,115)	-	-	(69,842)
<b>Preferred Capital Investments, net of allowances</b>	<b>\$ 3,030,798</b>	<b>\$ -</b>	<b>\$ 2,488,545</b>	<b>\$ 3,030,140</b>	<b>\$ -</b>	<b>\$ 2,498,828</b>

## 6. Convertible debentures payable

On August 8, 2019, the Trust closed a \$13.7 million (CAD \$18.1 million based on the Bank of Canada daily noon rate of exchange \$1.3257), 6.25% convertible unsecured unsubordinated debenture (the "Convertible Debenture") offering. On August 13, 2019, the Trust closed an additional \$1.0 million (CAD \$1.3 million based on the Bank of Canada daily noon rate of exchange of \$1.3236) of the Convertible Debenture. The Convertible Debenture is due on June 30, 2026. The Convertible Debenture can be converted into trust units at an exercise price of CAD \$12.60 per trust unit (the "Conversion Option") at any time prior to June 30, 2026. Each Convertible Debenture Unit also includes 79 trust unit purchase warrants (the "Warrants") of the Trust. The warrants are exercisable at an exercise price of CAD \$12.60 per trust unit for a period of two years expiring on August 7, 2021.

As the functional currency of the Trust is USD, the Conversion Option and Warrants were classified as embedded derivatives. The Trust has elected to classify and measure the Convertible Debenture at FVTPL based on the trading price of the applicable debentures at each reporting date with changes in fair value being recognized in finance costs.

On May 20, 2020, The Trust received approval from the TSXV to commence a Normal Course Issuer Bid ("NCIB") to purchase up to \$1,810,800 principal amount of the Convertible Debentures being equal to 10% of the public float. The NCIB commenced on April 30, 2020 and ended on April 29, 2021. For the three months ended March 31, 2021, no convertible debentures were purchased by the Trust. For the year ended December 31, 2020, the Trust purchased convertible debentures with a face value of CAD \$61,000 for CAD \$47,710 (\$35,768).

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

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(Unaudited)

## 7. Mortgages payable

	March 31, 2021	December 31, 2020
Mortgages Payable	\$ 17,558,725	\$ 17,653,669
Less: current portion	(375,850)	(373,540)
Less: unamortized financing costs	(68,994)	(80,494)
	<b>\$ 17,113,881</b>	<b>\$ 17,199,635</b>

As at March 31, 2021, the Trust had mortgages payable secured by the multi-family properties of \$17,489,731 (including the current portion and net of unamortized financing costs) (December 31, 2020- \$17,573,175) which bear interest at a weighted average interest rate of 4.37% (December 31, 2020- 4.37%) per annum, and have maturity dates ranging between October 2022 and June 2023.

The following annual payments of principal and interest are required over the next three years in respect of these mortgages:

	Principal	Interest	Total
2021	\$ 280,297	\$ 760,903	\$ 1,041,200
2022	11,210,634	676,134	11,886,768
2023	6,067,794	127,451	6,195,245
Total	<b>\$ 17,558,725</b>	<b>\$ 1,564,488</b>	<b>\$ 19,123,213</b>

## 8. Changes in debt

The following table sets out an analysis of the movements in net debt during 2021 and 2020:

	Notes	Mortgages	Convertible Debentures
As at December 31, 2019		\$17,812,352	\$ 14,039,421
Repayments		(88,951)	-
Change in fair value of convertible debenture		-	(848,363)
Foreign exchange gain/ (loss)	14	-	(1,139,636)
Finance costs amortization	7,13	11,499	-
<b>As at March 31, 2020</b>		<b>\$17,734,899</b>	<b>\$ 12,051,422</b>
Repayments		(268,312)	-
Normal course issuer bid	6	-	(35,768)
Finance costs amortization	7,13	106,587	-
Change in fair value of convertible debenture	6	-	(1,148,183)
Foreign exchange gain/ (loss)	14	-	1,301,552
<b>As at December 31, 2020</b>		<b>\$17,573,175</b>	<b>\$ 12,169,023</b>
Repayments		(94,942)	-
Finance costs amortization	7,13	11,499	-
Change in fair value of convertible debenture	6	-	2,374,126
Foreign exchange gain/ (loss)	14	-	168,070
<b>As at March 31, 2021</b>		<b>\$17,489,731</b>	<b>\$ 14,711,219</b>

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Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

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## 9. Unitholders' Equity

### (a) Trust Units

In accordance with the Declaration of Trust, the Trust may issue an unlimited number of Trust Units and Class B Units. The Board of Trustees of the Trust has discretion with respect to the timing and amount of distributions.

#### *Trust Units and Class B Units*

No Trust Unit or Class B Unit will have any preference or priority over another. Each Trust Unit or Class B Unit represents a Unitholder's proportionate, undivided beneficial ownership interest in the Trust and confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by the Trust.

#### *Conversion of Class B Units*

Each Class B Unit is convertible at any time, at the option of the holder thereof and/or the Trust, into a Trust Unit, on the basis of one Trust Unit for each Class B Unit so converted. Notice of conversion of Class B Units will be given to and by each holder of Class B Units to be converted by the Trust not less than 30 and not more than 60 days prior to the date fixed for conversion.

#### *Redemption of Trust Units and Class B Units at Option of Holder*

Trust Units or Class B Units are redeemable at any time on demand by the holders by way of a redemption notice. Upon receipt of the redemption notice by the Trust, all rights to and under the Trust Units or Class B Units tendered for redemption shall be surrendered and the holder thereof will be entitled to receive a price per Trust Unit or Class B Unit (the "**Redemption Price**") equal to:

- (i) in respect of the Trust Units, the lesser of: (1) 90% of the Market Price (as such term is hereinafter defined) of the Trust Units calculated on the date (the "**Redemption Date**") on which the Trust Units were surrendered for redemption; and (2) 100% of the Closing Market Price (as such term is hereinafter defined) on the principal market on which the Trust Units are listed for trading, on the Redemption Date; and
- (ii) in respect of the Class B Units, the Designated Percentage (as such term is hereinafter defined) of the Net Asset Value per Trust Unit and Class B Unit (as such term is hereinafter defined) calculated at the Valuation Time immediately preceding the date (the "**Class B Redemption Date**") on which the Class B Units were surrendered for redemption.

For purposes of this calculation, the "**Market Price**" as at a specified date will be:

- (i) an amount equal to the weighted average trading price of a Trust Unit on the principal exchange or market on which the Trust Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date;
- ii) an amount equal to the weighted average of the Closing Market Prices of a Trust Unit on the principal exchange or market on which the Trust Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or
- (iii) if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, an amount equal to the simple average of the following prices established for each of the 10 consecutive trading days ending on such date: the simple average of the last bid and last asking price of the Trust Units for each day on which there was no trading; the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day.

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The "**Closing Market Price**" of a Trust Unit for the purpose of the foregoing calculations, as at any date will be:

- (i) an amount equal to the weighted average trading price of a Trust Unit on the principal exchange or market on which the Trust Units are listed or quoted for trading on the specified date and the principal exchange or market provides information necessary to compute a weighted average trading price of the Trust Units on the specified date;
- (ii) an amount equal to the closing price of a Trust Unit on the principal market or exchange if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Trust Units on the specified date;
- (iii) an amount equal to the simple average of the highest and lowest prices of the Trust Units on
- (iv) the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Trust Units on the specified date; or
- (v) the simple average of the last bid and last asking prices of the Trust Units on the principal market or exchange, if there was no trading on the specified date.

Further, for the purposes of the foregoing, "Net Asset Value of the Trust" as at a specified date means the total value of Trust's assets less the total of the Trust's liabilities, in each case, as at such date and in accordance with the applicable provisions of the Declaration of Trust, and "Net Asset Value per Trust Unit and Class B Unit" as at a specified date will be an amount equal to the Net Asset Value of the Trust on such date, divided by the number of issued and outstanding Trust Unit and Class B Units on such date. The Net Asset Value of the Trust and Net Asset Value per Trust Unit and Class B Unit shall be determined as of the Valuation Time on each Valuation Date.

The aggregate Redemption Price payable by the Trust in respect of any Trust Unit or Class B Unit surrendered for redemption during any calendar month within 30 days after the end of the calendar month in which the Trust Units or Class B Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Trust Units or Class B Units is subject to the limitations that: (i) the total amount payable by the Trust in respect of such Trust Unit or Class B Unit and all other Trust Unit or Class B Units tendered for redemption in the same calendar month must not exceed \$50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) in respect of the Trust Units only, on the date such Trust Unit or Class B Units are tendered for redemption, the outstanding Trust Units must be listed for trading or quoted on any stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; (iii) in respect of the Trust Units only, the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, in any market where the Trust Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10-day trading period commencing immediately before the Redemption Date; and (iv) in respect of the Trust Units only, the redemption of the Trust Units must not result in the delisting of the Trust Units from the principal stock exchange on which the Trust Units are listed.

### *Redemption of Class B Units at Option of Trust*

The Trust will be entitled to redeem at any time or from time to time at the demand of the Trust and upon giving notice, all or any part of the Class B Units by payment of an amount in cash for each Class B Unit so redeemed (the "**Trust Redemption Price**") of the Net Asset Value per Trust Unit and Class B Unit calculated at the Valuation Time immediately preceding the Trust Redemption Date. Notice of redemption of Class B Units will be given to each holder of Class B Units to be redeemed by the Trust not less than 30 and not more than 60 days prior to the date fixed for redemption or conversion, as applicable.



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Trust Units as at March 31, 2021 are as follows:

	Notes	Number of Trust Units	Value
Balance at December 31, 2019		6,935,306	\$ 82,931,506
Issuance of Units:			
Marketed Offering	9(a)(i)	1,590,000	11,546,448
Distribution Reinvestment Plan	9(b)	2,669	21,623
Balance at March 31, 2020		8,527,975	\$ 94,499,577
Issuance of Units:			
Marketed Offering	9(a)(i)	-	(22,667)
Warrant Exercise	9(a)(ii)	1,000	8,500
Less: Normal Course Issuer Bid	9(a)(iii)	(128,100)	(721,004)
Less: Trust Unit Repurchase	9(a)(iv)	(686,200)	(2,744,200)
Balance at December 31, 2020 and March 31, 2021		7,714,675	\$ 91,020,205

- (i) On March 13, 2020, the Trust closed a marketed offering of 1,590,000 Trust Units at a price of \$8.20 (CAD \$10.90 per Trust Unit based on the Bank of Canada daily noon rate of exchange of \$1.3745). The Trust raised total gross proceeds of \$12.6 million (\$11.5 million net of issuance costs and allocation to warrants).
- (ii) On May 27, 2020, 1,000 warrant options were exercised resulting in net proceeds of \$0.008 million, while the remaining options expired.
- (iii) On April 28, 2020, the Trust received approval from the TSXV Venture Exchange to commence a Normal Course Issuer Bid ("NCIB") to purchase up to 645,442 of its trust units being equal to 10% of the public float. The NCIB commenced on April 30, 2020 and ended on April 29, 2021. For the three months ended March 31, 2021, no Trust Units were repurchased. For the year ended December 31, 2020, the Trust repurchased 128,100 Trust Units for a total gross cost of \$0.7 million at a weighted average cost of \$5.75 per Trust Unit.
- (iv) On July 27, 2020, the Trust redeemed and cancelled 686,200 Trust Units at a price of \$4.00 (CAD \$5.35) per Trust Unit representing a total gross cost of \$2.7 million (CAD \$3.7 million).

(b) *Distribution Reinvestment Plan ("DRIP")*

The Trust implemented a dividend reinvestment plan (the "DRIP") and a unit purchase plan (the "Purchase Plan" and collectively with the DRIP, the "Plans"), each to be offered to holders of trust unit resident in Canada and administered by TSX Trust Company (the "Agent"). The Plans enable Unitholders to increase their investment in the Trust by receiving distribution payments and/or optional cash payments in the form of Trust Units. Pursuant to the DRIP and Purchase Plan, holders of Trust Units may elect to: (a) have all cash distributions of the Trust automatically reinvested in additional Trust Units at the Average Market Price and (b) purchase Trust Units by contributing optional cash payments to the Trust, which will be invested for additional Trust Units at the Average Market Price.

If the Average Market Price is less than US\$8.10, (the "Reference Price"), the Agent shall use such funds to purchase, at a cost less than the Reference Price, additional Trust Units for the participants through the facilities of the TSXV for a period of five (5) trading days following the relevant distribution date. To the extent the Agent is unable to purchase additional Trust Units at a cost less than the Reference Price because Trust Units are not offered or are offered at prices which, after payment of brokerage fees or commissions, would result in a cost at or exceeding the Reference Price, then the remaining funds will be applied to the purchase of Trust Units from the treasury of the Trust at the Reference Price. If the Average Market Price is equal to or more than the Reference Price, the funds will be applied to the purchase of Trust Units from the treasury of the Trust at the Average Market Price.

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A minimum purchase of \$3,000 on the last business day of each calendar quarter (a “**Quarterly Purchase Date**”) and maximum purchases of up to \$12,000 per year (payable in one lump sum or from time to time on a Quarterly Purchase Date) are permitted under the DRIP and Purchase Plan. The aggregate number of Trust Units that may be issued under the DRIP and Purchase Plan may not exceed in each year 2% of the number (at the commencement of the fiscal year of the Trust) of the outstanding Trust Units.

For the three months ended March 31, 2021, nil Trust Units were issued under DRIP. For the year ended December 31, 2020, 2,669 Trust Units were issued from treasury for total gross proceeds of \$21,623 to Unitholders who elected to receive their distributions under the DRIP.

## (c) Unit Based Liabilities

The Trust’s unit-based liabilities as at March 31, 2021 consists of the following:

<b>Unit Based Liabilities</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Deferred Trust Units	\$ 35,581	\$ 31,318
Warrants	26,794	15,338
Options	535,135	290,174
<b>Total Unit Based Liabilities</b>	<b>\$ 597,510</b>	<b>\$ 336,830</b>

## (d) Deferred Trust Units

On March 31, 2015, the Trust adopted a DTU plan. Under the terms of the plan, any units issued must be issued at a unit price which is a minimum of the volume weighted average trading price of the units on the TSXV for the five days trading immediately preceding the date on which DTUs are granted. Distributions equivalents are awarded in respect of DTU holders on the same basis as unitholders and credited to the DTU holders account as additional DTUs. The maximum DTUs which may be awarded under the DTU plan shall not exceed 10% of the issued and outstanding units. The DTU plan is designed such that the board may elect to pay out the DTUs in either cash or common units of the Trust. As at March 31, 2021, the outstanding liability was \$35,581. For the three months ended March 31, 2021, the expense on the DTU plan was \$4,263.

## (e) Warrants

The Trust had the following warrants outstanding and exercisable as at March 31, 2021:

<b>Issuance Date</b>	<b>Number of warrants</b>	<b>Weighted average exercise price</b>	<b>Warrants Reserve</b>	<b>Expiry Date</b>
August 8, 2019	1,534,812	\$ CAD 12.60	\$ -	August 7, 2021
March 13, 2020	1,590,000	10.75	26,794	March 13, 2022
<b>Total/ Weighted Average</b>	<b>3,124,812</b>	<b>\$ 10.01</b>	<b>\$ 26,794</b>	

The warrant reserve was calculated using the Black Scholes model. The following assumptions were used:

<b>Warrant Assumptions</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Stock Price	\$ 6.10	\$ 5.37
Exercise Price	\$10.75	\$10.75
Expected Life in Years	0.95	1.20
Annualized Volatility	30.00%	30.00%
Annual Rate of Monthly Dividends	\$ 0.24	\$ 0.24
Discount Rate - Bond Equivalent Yield	0.22%	0.17%

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(i) On August 8, 2019, the Trust issued 1,534,812 Warrants as part of the Convertible Debenture offering as further described in note 6 of these condensed consolidated interim financial statements. The warrants have an exercise price of CAD \$12.60 per Trust Unit and expire on August 7, 2021. As the functional currency of the Trust is USD, the Warrants were classified as embedded derivatives. The Trust has elected to classify and measure the Convertible Debenture at FVTPL with changes in fair value being recognized in finance costs and not in the warrant reserve.

(ii) On March 13, 2020, the Trust issued 1,590,000 Warrants as part of the equity offering as further described in note 11(a)(ii) of these consolidated financial statements. The Warrants have an exercise price \$10.75 per Trust Unit and expire on March 13, 2022.

(iii) On May 27, 2020, 1,000 warrants were exercised resulting in net proceeds of \$0.008 million, while the remaining warrants expired.

For the three months ended March 31, 2021, the expense from its warrants was \$11,456.

## (f) Options

The Trust has a 10% rolling incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees and consultants of the Trust.

On March 16, 2021, the Trust granted options to certain trustees, officers and management of the Trust to purchase a total 119,500 Trust Units. 49,300 of the options have an exercise price of \$7.50 per Trust Unit and 70,200 of the options have an exercise price of \$8.30 per Trust Unit. Of the 119,500 options granted, 99,833 options vested immediately, and the remaining 19,667 options will equally vest on March 16, 2022 and March 16, 2023. The options expire on March 16, 2031.

The Trust had the following options outstanding and exercisable on March 31, 2021:

<b>Issuance Date</b>	<b>Number of Options</b>	<b>Weighted average exercise price</b>	<b>Options Reserve</b>	<b>Expiry Date</b>
August 17, 2017	368,738	\$ 7.50	\$ 279,105	August 17, 2027
November 19, 2018	240,900	8.30	163,948	November 19, 2028
March 16, 2021	49,300	7.50	40,930	March 16, 2031
March 16, 2021	70,200	8.30	51,152	March 16, 2031
<b>Total/ Weighted Average</b>	<b>729,138</b>	<b>\$ 7.84</b>	<b>\$ 535,135</b>	

The option reserve was calculated using the Black Scholes model. The following assumptions were used:

<b>Option Assumptions</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Stock Price	\$ 6.10	\$ 5.37
Exercise Price	\$7.50-\$8.30	\$7.50-\$8.30
Expected Life in Years	6.38-9.96	6.63-7.89
Annualized Volatility	30.00%	30.00%
Annual Rate of Monthly Dividends	\$ 0.24	\$ 0.24
Discount Rate - Bond Equivalent Yield	0.22%	0.17%

For the three months ended March 31, 2021, the expense for the options was \$244,961.

## (g) Distribution

For the three months ended March 31, 2021, the Trust declared distributions of \$0.059 per Trust Unit resulting in total distributions of \$455,166 (March 31, 2020 - \$503,151). As at March 31, 2021, the Trust accrued \$455,166, which is included in its accounts payable and accrued liabilities (March 31, 2020 - \$503,151).

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## 10. Risks

### *Risk management*

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

### *Market risk*

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices and includes foreign currency and interest rate risk.

### *Foreign currency risk*

The Trust's operations are based principally in the United States of America, but it has exposure to foreign exchange risk from the \$CAD. Foreign exchange risk arises from the recognized financial assets and liabilities denominated in \$CAD. As a result of the convertible debenture offering as further described in note 6 of these condensed consolidated interim financial statements, the Trust has additional exposure to foreign currency risk as the cash proceeds and interest payments of the debenture are in \$CAD while it invests the net proceeds from the convertible debenture offering in \$USD. The Trust monitors the foreign currency market closely to mitigate these risks. The following \$CAD amounts are presented in \$USD to demonstrate the effects of changes in foreign exchange rates:

	<b>CAD</b>
	\$
Cash, Other Assets and Mortgage Investments	294,881
Total Liabilities	(18,889,049)
Total	(18,594,168)
Effect of +/- 10% change in exchange rate	(1,859,417)

### *Interest rate risk*

The Trust is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. As all mortgages, loans and notes payable bear interest at fixed rates, interest rate risk is limited to potential decreases in the interest rate offered on cash held with chartered Canadian and American financial institutions. The risk also exists of a change in interest rates when the Trust is required to renew its debt. The Trust's objective of managing interest rate risk is to minimize the volatility of earnings. Interest rate risk has been minimized as mortgages have been financed at fixed interest rates. As a result of debt not being subject to floating interest rates, changes in prevailing interest rates would not be expected to have a material impact on profit or loss.

### *Credit risk*

Credit risk refers to the risk that a tenant, counterparty or borrower will default on its contractual obligations resulting in financial loss to the Trust. Financial instruments which are potentially subject to credit risk for the Trust consists primarily of non-payment of accounts receivable. The Trust mitigates this risk by monitoring the credit worthiness of its tenants and borrowers. To ensure that tenants continue to meet their credit terms, the financial viability of tenants is kept under review. Credit risk, or the risk of a counterparty defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Trust obtains security deposits as collateral.

The credit risk on cash is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the consolidated financial statements, net of any expected credit losses, represents the Trust's maximum exposure to credit risk.

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## *Financing Risk*

The Trust is subject to the risks associated with debt financing, including the risk that the convertible debentures and mortgages secured by the properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. To the extent that interest rates rise there may be a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations.

## *Liquidity risk*

Liquidity risk is the risk that the Trust may not be able to generate sufficient cash resources to settle its obligations as they fall due. The Trust's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities, cash flow provided by financing activities, and divestitures of non-current assets.

## *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date. The fair values of the Trust's cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities to approximate their carrying values due to their short-term nature.

The Trust classifies its fair value measurements in accordance with the fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table summarizes information about assets measured at fair value on a recurring basis and categorized by level of significance of the inputs used in making the measurements:

<b>March 31, 2021</b>	<b>Level 3</b>
Investment properties	\$ 49,996,398
<b>December 31, 2020</b>	<b>Level 3</b>
Investment properties	\$ 49,585,840

There were no transfers between levels during the year ended March 31, 2021.

## **11. Capital risk management**

The capital of the Trust includes equity, which is comprised of issued unit capital and deficit. The Trust's objective when managing its capital is to safeguard the ability to continue as a going concern in order to provide returns for its unitholders, and other stakeholders and to maintain a strong capital base to support the Trust's core activities, which are the acquisition, ownership, management and rental of residential real estate properties as discussed in note 1 of these condensed consolidated interim financial statements.

Although the Trust is not subject to any formal covenants, there are certain restrictions under the different debts and mortgages that the Trust must target to stay in compliance. The Trust monitors these different debts and mortgages and was in compliance during the three months ended March 31, 2021.

## **12. Related party transactions**

(i) On November 1, 2015, the Trust entered into a Management Agreement with Firm Capital Realty Partners Advisors Inc. (the "**Manager**"), an entity related to a director of the Trust. Under the terms of the Agreement, the Manager provides a number of services to the Trust, and is entitled to certain fees payable monthly, as follows:

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1. **Asset Management Fee:** 0.75% of the Gross Invested Assets of the Trust,
2. **Acquisition Fee:**
  - a. 1.0% of the first \$300 million of aggregate Gross Book Value in respect of Properties acquired in a particular year; and thereafter
  - b. 0.75% of aggregate Gross Book Value in respect of Properties acquired in such year.
3. **Performance Incentive Fees:** 15% of Adjusted Funds from Operation ("AFFO") once AFFO exceeds \$0.63 per Unit.
4. **Placement Fees:** 0.25% of the aggregate value of all debt and equity financing arranged by the Manager.
5. **Property Management Fees:**
  - a. Multi-unit residential properties with 120 units or less, 4.0% of Gross Revenue collected from the property;
  - b. Multi-unit residential properties with more than 120 units. 3.5% of Gross Revenue collected from the property.
  - c. Industrial or commercial property, 4.25% of Gross Revenue are collected from the property; provided, however, that for such properties with a single tenant 3.0% of Gross Revenue collected from the property.
6. **Commercial Leasing Fees:** 3.0% of the net rental payments for the first year of the lease, and 1.5% of the net rental payments for each year during duration of the lease; provided, however, that where a third party broker arranges for the lease of any such property that is not subject to a long-term listing agreement, the Manager shall be entitled to reduced commission equal to 50% of the foregoing amounts with respect to such property.
7. **Commercial Leasing Renewal Fees:** Renewals of space leased on commercial terms (including lease renewals at the option of the tenant) which are handled exclusively by the Manager shall be subject to a 0.50% commission on the net rental payments for each year of the renewed lease. When a long-term listing agreement is in effect for leasing and marketing of space with a party other than the Manager, the Manager shall cooperate fully with the broker and the leasing fees will not be payable to the Manager.
8. **Construction Development Property Management Fees:** Where the Manager is requested by the Trust to construct tenant improvements or to renovate same, or where the Manager is requested by the Trust to construct, modify, or re-construct improvements to, or on, the Properties (collectively, "**Capital Expenditures**"), the Manager shall receive 5.0% of the cost of such Capital Expenditures, including the cost of all permits, materials, labour, contracts, and subcontracts; provided, however, that no such fee shall be payable unless the Capital Expenditures are undertaken following a tendering or procurement process wherein the total cost of such Capital Expenditures exceed \$50,000.
9. **Loan Servicing Fees:** 0.25% per annum on the principal amount of each Mortgage Investment (other than syndicated loans serviced by third parties). The Loan Servicing Fee will be calculated as spread interest and deducted from the first interest received on a mortgage investment. Mortgage servicing fees will be payable as to 1/12 monthly based on the receipt of interest payments from borrowers. Loan Servicing Fees will not be payable in respect of the Trust's cash balances or Non-Performing Loans held by the Trust, except that the Manager shall be entitled to retain any overnight float interest on all accounts maintained by the Manager in connection with the servicing of the Trust's Mortgage Investments. The Manager will retain all overnight float interest and related loan servicing fees as charged such as advance fees, discharge statement fees, realty tax escrow account charges, late payment and dishonoured payment charge fees, and all other such fees as charged by a loan servicing agent. This will only apply to the Mortgage Investments of the Trust.
10. **Origination, Commitment & Discharge Fees and Profit Sharing Fees:** The Manager shall remit to the Trust:
  - a. 25% of all originating fees, commitment fees and renewal fees it receives from borrowers on mortgages it originates for the Trust (prorated to reflect the Trust's participation in the investment). The Manager will retain 100% of all originating fees,

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

commitment fees, renewal fees and will remit 25% of such fees to the Trust calculated on the Trust's investment amount; and

- b. 75% of any profit sharing, discharge fees, participation fees and profit made on discounted debt that the Mortgage Banker receives in respect of all Non-Conventional Mortgages and Special Profit Transactions it originates for the Trust (with a 8.0% annual preferential return to be given to the Trust on the Trust's investment amount prior to the Manager receiving its share of such fees). The Manager shall retain 100% of all servicing charges paid by borrowers which are not identified above, including, without limitation, discharge statement administration fees and all fees identified.

11. **Term and Termination:** Initial term of ten years with automatic renewal for successive five year terms. The Trust may terminate the Agreement any time after November 1, 2025 other than for cause upon the approval of two-thirds of the votes cast by unitholders at a meeting and upon 24 months prior written notice. Upon termination, the Trust shall pay to the Manager the following:

- a. 2% of the Gross Invested Assets of the Properties and the Trust's other assets; and
- b. any amounts which would have been earned by the Manager under the Agreement for the uncompleted portion of the term (the "**Termination Payment**").

For the three months ended March 31, 2021, asset management fees were \$260,092 (2020 - \$218,023), loan servicing fees were \$20,084 (2020 - \$19,947), acquisition fees were \$nil (2020 - \$124,912), debt placement fees were \$26,950 (2020 - \$27,662), equity placement fees were \$nil (2020 - \$31,623) and property management fees were \$21,116 (2020 - \$21,962).

Asset Management fees and loan servicing fees are included in general and administrative expenses. Property management fees are included in property operating expenses. Acquisition fees and debt placement fees are capitalized to equity accounted investments. Equity Placement Fees have been capitalized against unitholders' equity.

As at March 31, 2021, the Trust has accrued \$1,124,369 (December 31, 2020 - \$1,110,230) under this Management Agreement, which is included in accounts payable and accrued liabilities.

## 13. Property Operating, General and Administrative and Finance Expenses

Property operating, general and administrative and finance expenses for the three months ended March 31, 2021 and 2020 are as follows:

	Three Months Ended	
	March 31, 2021	March 31, 2020
<b>Property Operating Expenses</b>		
Property Taxes	\$ 176,560	\$ 159,825
Insurance	39,667	35,241
Operating Expenses	339,433	287,830
Total	\$ 555,660	482,896
	Three Months Ended	
	March 31, 2021	March 31, 2020
<b>General and Administrative</b>		
Asset Management Fees (note 12)	\$ 260,092	\$ 218,023
Public Company Expenses	33,650	26,424
Office and General	204,657	223,677
Total	\$ 498,399	\$ 468,124

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

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	Three Months Ended	
	March 31, 2021	March 31, 2020
<b>Finance Costs</b>		
Bank interest expense	\$ 192,302	\$ 197,475
Convertible debenture interest expense	277,518	220,370
Finance cost amortization	11,499	11,499
Total	\$ 481,319	\$ 429,345

## 14. Foreign Exchange Loss/ (Gain)

The foreign exchange gain for the three months ended March 31, 2021 and 2020 are as follows:

	Three Months Ended	
	March 31, 2021	March 31, 2020
<b>Foreign Exchange (Loss)/Gain</b>		
Foreign exchange (loss)/gain on convertible debentures (note 8)	\$ (168,070)	\$ 1,139,636
Foreign exchange gain/(loss)	42,991	(167,426)
Total	\$ (125,079)	\$ 972,210

## 15. Subsequent events

### i. Q2/2021 Distributions

On May 13, 2021, the Trust declared and approved quarterly distributions of \$0.059 per unit for unitholders on record on June 30, 2021 payable on or about July 15, 2021.

### ii. \$2 Million Credit Facility

On April 6, 2021, the Trust entered into a \$2.0 Million Revolving Operating Facility (the "Facility") with a Canadian Chartered Bank. The Facility is a \$2.0 million demand credit facility under which the Trust may obtain on a revolving basis US Dollar overdrafts, LIBOR Loans and Letters of Credit. The interest rate is based on a calculated formula using either: (i) the US Base Rate; (ii) LIBOR or (iii) Letters of Credit Fees. The Facility is secured by a guarantee by the Trust for the amount of the Facility and contains financial and non-financial covenants.

### iii. Acquisition of 50% interest in Irvington, New Jersey Equity Accounted Investment

Subsequent to the quarter ended March 31, 2021, the Trust has agreed in principle to purchase the remaining 50% interest of its Equity Accounted Investment in Irvington, New Jersey for \$2.5 million and is subject to customary closing conditions. The purchase is expected to close before the year ended December 31, 2021.