

The background of the entire page is a low-angle photograph of a tall, modern skyscraper with a grid of windows. An American flag is flying in the foreground, partially obscuring the building. The flag is waving, and its colors are vibrant. The sky is a pale, overcast grey.

# FIRM CAPITAL APARTMENT REIT

CAPITAL PRESERVATION • DISCIPLINED INVESTING

# FINANCIAL STATEMENTS

FIRST QUARTER 2023  
MARCH 31, 2023

Condensed Consolidated Interim Financial Statements of

**FIRM CAPITAL APARTMENT REAL ESTATE  
INVESTMENT TRUST**

For the Three Months Ended March 31, 2023 and 2022

(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, 2023 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, 2023	December 31, 2022
<b>Assets</b>			
Current Assets			
Cash and Cash Equivalents		\$ 464,808	\$ 817,954
Restricted Cash		2,055,650	3,189,359
Accounts Receivable		785,335	673,259
Prepaid Expenses and Other Assets		370,130	512,726
Assets Held for Sale	3	125,008,113	-
Total Current Assets		128,684,036	5,193,298
Non-Current Assets			
Investment Properties	3	-	128,743,435
Equity Accounted Investments	4	8,818,768	8,774,668
Preferred Investments	4	9,243,563	9,242,843
Preferred Capital Investments	5	5,171,891	5,139,710
Total Non-Current Assets		23,234,222	151,900,656
Total Assets		\$ 151,918,258	\$ 157,093,954
<b>Liabilities and Unitholders' Equity</b>			
Current Liabilities			
Accounts Payable and Accrued Liabilities	12	5,770,849	6,770,844
Bank Indebtedness	7(b),8	990,000	965,000
Mortgages and Loan Payable	7(a),8	28,669,796	28,711,219
Unit Based Liabilities	9(c)	364,337	171,833
Liability Related to Assets Held for Sale	3,7(a)	18,370,000	-
Total Current Liabilities		54,164,982	36,618,896
Non-Current Liabilities			
Mortgages and Loan Payable	7(a),8	28,369,743	46,770,191
Convertible Debentures Payable	6,8	12,163,735	11,583,342
Total Non-Current Liabilities		40,533,478	58,353,533
Total Liabilities		94,698,460	94,972,429
Unitholders' Equity	9	57,219,798	62,121,525
Total Liabilities and Unitholders' Equity		\$ 151,918,258	\$ 157,093,954

Subsequent Event

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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 Loss and Comprehensive Loss

For the three months ended March 31, 2023 and 2022

(Expressed in US Dollars)

(Unaudited)

		Three Months Ended	
	Notes	March 31, 2023	March 31, 2022
Net Rental Income			
Rental Revenue		\$ 3,495,297	\$ 2,049,088
Property Operating Expenses	13	(1,805,948)	(1,191,750)
		1,689,349	857,339
Income from Investments			
Income from Equity Accounted Investments	4	44,100	241,075
Income from Preferred Investments	4	181,851	421,799
Income from Preferred Capital Investments		136,789	62,773
		362,740	725,647
Expenses			
General and Administrative	13	(547,158)	(395,891)
Finance Costs	13	(1,344,371)	(654,995)
		(1,891,529)	(1,050,886)
Net Income Before Fair Value and Other Adjustments		\$ 160,560	\$ 532,100
Fair Value Adjustments			
Investment Properties	3	(4,162,302)	-
Asset Acquisitions	3	-	(429,408)
Convertible Debentures	6,8	(575,755)	(227,912)
Unit Based Recovery (Expense)	9(c)	(192,504)	50,315
Other Adjustments			
Provision for Impairment - Preferred Investments	4	(130,492)	-
Foreign Exchange Loss	14	(1,234)	(270,439)
		(5,062,287)	(877,444)
Net Loss and Comprehensive Loss		\$ (4,901,727)	\$ (345,345)

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, 2023 and 2022

(Expressed in US Dollars)

(Unaudited)

	Notes	Trust Units	Deficit	Balance
Balance at January 1, 2022		\$ 90,221,737	\$ (13,060,942)	\$ 77,160,795
Net Loss and Comprehensive Loss		-	(345,345)	(345,345)
Distributions	9(g)	-	(448,658)	(448,658)
Unitholders' Equity, March 31, 2022		\$ 90,221,737	\$ (13,854,945)	\$ 76,366,792
Net Loss and Comprehensive Loss		-	(13,774,598)	(13,774,598)
Distributions	9(g)	-	(470,669)	(470,669)
Unitholders' Equity, December 31, 2022		\$ 90,221,737	\$ (28,100,212)	\$ 62,121,525
Net Loss and Comprehensive Loss		-	(4,901,727)	(4,901,727)
Unitholders' Equity, March 31, 2023		\$ 90,221,737	\$ (33,001,939)	\$ 57,219,798
Trust Units Outstanding				7,604,375

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, 2023 and 2022

(Expressed in US Dollars)

(Unaudited)

For the three months ended	Notes	March 31, 2023	March 31, 2022
Cash Flow from (used in) Operating Activities			
Net Loss		\$ (4,901,727)	\$ (345,345)
Add (Deduct):			
Adjustments for:			
Fair Value Adjustments to Investment Properties	3	4,162,302	-
Fair Value Adjustments on Asset Acquisitions	3	-	429,408
Provision for Impairment of Preferred Investments	4	130,492	-
Fair Value Adjustments to Convertible Debentures	6,8	575,755	227,912
Fair Value Adjustments to Unit Based Compensation	9(c)	192,504	(50,315)
Mark to Market on Assumed Mortgages	8	(9,135)	(86,520)
Finance Cost Amortization	8	45,253	22,206
Unrealized Foreign Exchange Loss on Convertible Debentures	14	4,638	268,159
Income from Equity Accounted Investments, Net of Distributions		(44,100)	(223,116)
Income from Preferred Investments, Net of Distributions		(720)	(241,280)
Income from Preferred Capital Investments, Net of Distributions		(32,181)	(77,147)
Changes in Non-Cash Operating Working Capital:			
Accounts Receivable		(112,076)	147,372
Prepaid Expenses and Other Assets		142,596	(300,348)
Accounts Payable and Accrued Liabilities	12	(999,995)	294,690
Total Operating Activities		(846,394)	65,675
Cash Flows from (used in) Investing Activities			
Acquisition of assets, net of cash acquired	3	-	(2,529,936)
Investment in Preferred Investments	4	(130,492)	-
Capital Expenditures on Investment Properties	3	(426,980)	(357,687)
Total Investing Activities		(557,472)	(2,887,623)
Cash Flows from (used in) Financing Activities			
Distributions Paid	9(g)	-	(448,658)
Bank Indebtedness Advance	7(b),8	25,000	850,000
Mortgage and Loan Repayments, Net of Deferred Finance Costs	7(a),8	(107,989)	(169,090)
Total Financing Activities		(82,989)	232,252
Decrease in Cash, Cash Equivalents and Restricted Cash		(1,486,855)	(2,589,696)
Cash, Cash Equivalents and Restricted Cash, Beginning of Period		4,007,313	5,071,329
Cash, Cash Equivalents and Restricted Cash, End of Period		2,520,458	2,481,633
Consisting of:			
Cash and Cash Equivalents		464,808	356,941
Restricted Cash		2,055,650	2,124,692

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, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

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## 1. Nature of operations

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 Trust trades on the TSXV exchange under the symbols FCA.U and FCA.UN. The registered office of the Trust and its head office operations are located at 163 Cartwright Avenue, Toronto, Ontario, M6A 1V5. The Trust is domiciled in Canada.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Trustees on May 29, 2023.

## 2. Basis of preparation

### *Statement of compliance*

The condensed consolidated interim statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting ("IAS 34") as issued by the IASB and follow the same accounting policies and methods of application as the audited annual consolidated financial statements of the Trust for the year ended December 31, 2022. These condensed consolidated interim financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the 2022 audited annual consolidated financial statements and the notes thereto.

### *Significant Accounting Policies*

The significant accounting policies used in the preparation of these unaudited condensed consolidated interim 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, 2022, with the following new significant accounting policies noted below.

### *Assets Held for Sale*

An investment property is reclassified to held for sale when the Trust has committed to a plan to sell the asset, the property is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property, the Trust is actively marketing the sale at a reasonable price in relation to its estimated fair value and a sale is highly probable of being completed within one year in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"). The Trust presents non-current assets classified as held for sale and their associated liabilities separately from other assets and liabilities on the condensed consolidated interim balance sheets and in the notes beginning from the period in which they were first classified as "for sale" and the sale is highly probable. Upon designation as held for sale, the investment property is measured at fair value less costs to sell.

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

## 3. Investment properties and assets held for sale

On February 8, 2022, the Trust completed the acquisition of a real estate portfolio ("Houston, TX Portfolio") that was previously being held and recorded under equity accounted investments and preferred investments.

This transaction has been recognized as an asset acquisition whereby the associated costs have been capitalized. The fair value of the identifiable assets acquired and liabilities assumed have been determined at the date of transaction. The application of the acquisition method for the Houston, TX portfolio transaction is as follows:

Investment properties, including transaction costs	\$	32,918,525
Cash and restricted cash		1,674,921
Accounts receivable		160,675
Account payables and accrued liabilities		(425,360)
Mortgages payable		(22,534,391)
Net assets acquired	\$	11,794,370
Consideration:		
Purchase price	\$	4,204,856
Equity accounted and preferred investment		8,018,922
Fair value adjustment on acquisition		(429,408)
Total Consideration	\$	11,794,370

On April 29, 2022, the Trust completed the acquisition of a real estate portfolio ("Second Houston, TX Portfolio") that was previously being held and recorded under equity accounted investments and preferred investments.

This transaction has been recognized as an asset acquisition whereby the associated costs have been capitalized. The fair value of the identifiable assets acquired and liabilities assumed have been determined at the date of transaction. The application of the acquisition method for the Second Houston, TX portfolio transaction is as follows:

Investment properties, including transaction costs	\$	26,947,852
Cash and restricted cash		30,400
Accounts receivable		98,383
Account payables and accrued liabilities		(178,022)
Mortgages payable		(11,420,504)
Net assets acquired	\$	15,478,109
Consideration:		
Purchase price	\$	5,076,998
Equity accounted and preferred investment		9,942,477
Fair value adjustment on acquisition		458,634
Total Consideration	\$	15,478,109

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

The table below summarizes activity of the Trust's Investment Properties for the period ended March 31, 2023 and the year ended December 31, 2022:

	March 31, 2023	December 31, 2022
<b>Balance, beginning of period</b>	\$128,743,435	\$ 78,405,292
Acquisition	-	59,866,377
Building improvements	426,980	2,338,095
Fair value adjustments to investment properties	(4,162,302)	(11,866,329)
Investment properties reclassified to assets held for sale	(125,008,113)	-
<b>Balance, end of period</b>	\$ -	\$ 128,743,435

**Assets Held For Sale:** As at March 31, 2023, the Trust has reclassified its investment properties as assets held for sale totaling \$125,008,113 along with an associated mortgage payable that is likely to be assumed upon completion of the sale totaling \$18,370,000. Mortgages not likely to be assumed upon completion of a sale are not included in liabilities related to assets held for sale. As part of its Strategic Review, the Trust committed to a plan to sell these properties and the sales were considered to be highly probable as at March 31, 2023. The Trust has entered into an Agreement of Purchase and Sale to sell one of its Texas portfolios located in Austin, Texas with gross proceeds of \$12.6 million (\$8.8 million net of associated mortgage and closing costs). The closing of this sale is expected to occur prior to the end of June 2023. Subsequent to March 31, 2023, the Trust entered into an Agreement of Purchase and Sale to sell its New Jersey portfolio. Refer to note 15 of these condensed consolidated interim financial statements for further information.

The table below summarizes activity of the Trust's Assets Held for Sale for the period ended March 31, 2023 and the year ended December 31, 2022:

	March 31, 2023	December 31, 2022
<b>Balance, beginning of period</b>	\$ -	\$ -
Investment properties reclassified to assets held for sale	125,008,113	-
<b>Balance, end of period</b>	\$125,008,113	\$ -

The investment properties reclassified to Assets Held for Sale as at March 31, 2023 consist of 985 (2022 – 985) multi-family apartment units in six portfolios located in Florida, Texas and New Jersey.

For the period ended March 31, 2023, the Trust valued the investment properties using the overall capitalization method or the offer price less costs to sell of committed sales. The investment properties are valued on a highest and best use basis. For all the Trust's investment properties, the current use is considered the best use. Fair value was determined by applying a capitalization rate to stabilized net operating income ("Stabilized NOI"). Stabilized NOI incorporates allowances for vacancy, management fees and structural reserves for tenant inducements and capital expenditures to which a capitalization rate is applied that is deemed appropriate for investment property. Capitalization rates are based on many factors, including but not limited to the asset location, type, size and quality of the asset and taking into account any available market data at the valuation date. Capitalization rates used in the valuation of investment properties as of March 31, 2023 are based on current market data.

The key valuation assumptions for the investment properties are set out in the following table:

	March 31, 2023	December 31, 2022
Capitalization rate	5.65%-6.90%	5.63%-6.75%

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:

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

	March 31, 2023
Capitalization rate increase by 25 basis points	\$ (4,874,397)
Capitalization rate decrease by 25 basis points	5,294,005

Investment properties measured at fair value are categorized by level according to the inputs used. The Trust has classified these inputs as Level 3. There have been no transfers into or out of Level 3 in the current period.

## 4. Equity accounted and preferred investments

The Trust has invested in the following equity accounted and preferred investments. The table below lists the carrying value of these investments at March 31, 2023 and December 31, 2022.

(In \$millions unless otherwise stated).

March 31, 2023

Location	Units	Investment Properties	Common Equity Ownership %	Equity Accounted Investment - Common Equity	Preferred Investment	Total Investment	Preferred Yield
Connecticut - Hartford	109	\$ 12.3	50.0%	\$ 0.6	\$ 1.4	\$ 1.9	8%
Georgia - Canton	138	24.8	50.0%	3.6	3.6	7.3	8%
Maryland - Brentwood	118	17.0	25.0%	1.6	0.1	1.7	8%
Maryland - Hyattsville	235	37.2	50.0%	3.1	4.1	7.2	8%
New York - Bronx	132	21.2	50.0%	-	-	-	
New York - New York	129	22.2	22.8%	-	-	-	
<b>Total/ Weighted Average</b>	<b>861</b>	<b>\$ 134.7</b>	<b>42.4%</b>	<b>\$ 8.8</b>	<b>\$ 9.2</b>	<b>\$ 18.1</b>	<b>8%</b>

December 31, 2022

Location	Units	Investment Properties	Common Equity Ownership %	Equity Accounted Investment - Common Equity	Preferred Investment	Total Investment	Preferred Yield
Connecticut - Hartford	109	\$ 12.2	50.0%	\$ 0.5	\$ 1.4	\$ 1.9	8%
Georgia - Canton	138	24.7	50.0%	3.6	3.6	7.2	8%
Maryland - Brentwood	118	16.9	25.0%	1.6	0.1	1.7	8%
Maryland - Hyattsville	235	37.1	50.0%	3.1	4.1	7.2	8%
New York - Bronx	132	21.1	50.0%	-	-	-	
New York - New York	129	22.1	22.8%	-	-	-	
<b>Total/ Weighted Average</b>	<b>861</b>	<b>\$ 134.2</b>	<b>42.4%</b>	<b>\$ 8.8</b>	<b>\$ 9.2</b>	<b>\$ 18.0</b>	<b>8%</b>

Related parties of the Trust have invested alongside the Trust and are bound by identical terms in the underlying partnership agreements in the following investments:

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 and preferred investments. The Equity accounted investments consist of common equity, accounted for using the equity method and preferred equity accounted for as preferred investment loans carried at amortized cost. In addition, 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 at March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022 are included below:

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

	Equity Accounted Investments	Preferred Investments	Total
<b>As at January 1, 2022</b>	<b>\$ 23,280,118</b>	<b>\$ 17,246,878</b>	<b>\$ 40,526,996</b>
Investment Activity			
- Derecognition of Houston, TX Portfolio on Asset Acquisition	(4,467,235)	(3,551,687)	(8,018,922)
Income Items			
- Income from Equity Accounted Investments	241,075	-	241,075
<b>Net income from Equity Accounted Investments</b>	<b>241,075</b>	<b>-</b>	<b>241,075</b>
- Income from Preferred Investments	-	421,799	421,799
- Less: Distributions and interest received	(17,961)	(180,518)	(198,479)
<b>As at March 31, 2022</b>	<b>\$ 19,035,997</b>	<b>\$ 13,936,472</b>	<b>\$ 32,972,469</b>
Investment Activity			
- Equity Accounted Investments	212,000	-	212,000
- Preferred Investments	-	1,632,321	1,632,321
- Derecognition of Second Houston, TX Portfolio on Asset Acquisition	(6,092,821)	(3,849,656)	(9,942,477)
Income Items			
- Income from Equity Accounted Investments	546,648	-	546,648
- Fair Value Adjustments on Investment Properties	(3,588,890)	-	(3,588,890)
<b>Net income from Equity Accounted Investments</b>	<b>(3,042,242)</b>	<b>-</b>	<b>(3,042,242)</b>
- Income from Preferred Investments	-	848,208	848,208
- Less: Distributions and interest received	(79,989)	(502,025)	(582,014)
- Provision for Impairment on Equity Accounted Investments	(1,258,277)	-	(1,258,277)
- Provision for Impairment on Preferred Investments	-	(2,822,477)	(2,822,477)
<b>As at December 31, 2022</b>	<b>\$ 8,774,668</b>	<b>\$ 9,242,843</b>	<b>\$ 18,017,511</b>
Investment Activity			
- Preferred Investments	-	130,492	130,492
Income Items			
- Income from Equity Accounted Investments	44,100	-	44,100
<b>Net income from Equity Accounted Investments</b>	<b>44,100</b>	<b>-</b>	<b>44,100</b>
- Income from Preferred Investments	-	181,851	181,851
- Less: Distributions and interest received	-	(181,131)	(181,131)
- Provision for Impairment on Preferred Investments	-	(130,492)	(130,492)
<b>As at March 31, 2023</b>	<b>\$ 8,818,768</b>	<b>\$ 9,243,563</b>	<b>\$ 18,062,331</b>

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

	March 31, 2023	December 31, 2022
<b>Assets</b>		
Cash	\$ 363,868	\$ 344,355
Restricted Cash	2,442,525	2,109,586
Accounts Receivable	1,720,679	1,573,615
Other Assets	1,035,233	1,432,080
Investment Properties	134,711,069	134,173,704
	<b>\$ 140,273,374</b>	<b>\$ 139,633,340</b>
<b>Liabilities</b>		
Accounts Payable and Accrued Liabilities	7,475,363	2,506,583
Security Deposits	808,757	536,022
Mortgages	103,132,728	103,315,627
	<b>\$ 111,416,848</b>	<b>\$ 106,358,232</b>
<b>Equity</b>		
Deficit	\$ (18,620,175)	\$ (18,199,874)
Preferred Equity	21,160,613	25,411,376
Common Equity	26,316,088	26,063,606
	<b>\$ 28,856,527</b>	<b>\$ 33,275,108</b>
	<b>\$ 140,273,374</b>	<b>\$ 139,633,340</b>
<b>Investment Allocation for the Trust</b>		
Equity Accounted Investments	\$ 8,818,768	\$ 8,774,668
Preferred Investments	9,243,563	9,242,843
	<b>\$ 18,062,331</b>	<b>\$ 18,017,511</b>
	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>
<b>Net Income</b>		
Rental Revenue	\$ 3,074,383	\$ 4,139,327
Property Operating Expenses	(2,044,548)	(2,201,259)
<b>Net Rental Income</b>	<b>1,029,835</b>	<b>1,938,068</b>
Interest Expense	(1,089,693)	(560,571)
<b>Net Income (Loss) Before Interest from Preferred Investments</b>	<b>\$ (59,858)</b>	<b>\$ 1,377,497</b>
Less: Interest from Preferred Investments	(360,444)	(476,171)
<b>Net Income (Loss)</b>	<b>(420,301)</b>	<b>901,326</b>
<b>Income Earned by the Trust</b>		
Income from Equity Accounted Investments	\$ 44,100	\$ 241,075
Income from Preferred Investments	181,851	421,799
	<b>225,951</b>	<b>662,874</b>

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

The Trust establishes loss provisions applicable to its preferred investments using a 12 month ECL approach as prescribed by IFRS 9. 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.

At each reporting date, the Trust assesses the borrower's ability to make contractual payments based on current market conditions. For the three months ended March 31, 2023, the impairment recognized for preferred investments was \$130,492 (March 31, 2022 - \$nil). The provision was for the New York City Portfolio.

Preferred investments, associated allowance for losses and provision for impairment on preferred investments accounted at amortized cost at March 31, 2023 and December 31, 2022 are as follows:

	March 31, 2023				December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Preferred Investments	\$ 9,243,563	\$ -	\$ 8,950,515	\$18,194,078	\$ 9,242,843	\$ -	\$ 8,575,107	\$17,817,950
Allowance for losses of preferred investments	-	-	(976,915)	(976,915)	-	-	(731,999)	(731,999)
Provision for impairment of preferred investments	-	-	(7,973,600)	(7,973,600)	-	-	(7,843,108)	(7,843,108)
<b>Preferred Investments, net of allowances and provisions</b>	<b>\$ 9,243,563</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,243,563</b>	<b>\$ 9,242,843</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,242,843</b>

At each reporting date, the Trust establishes loss provisions applicable to its equity accounted investments where there is objective evidence of impairment as a result of a loss event. For the three months ended March 31, 2023, no further impairment loss was recorded (March 31, 2022 - \$nil).

## 5. Preferred capital investments

On September 10, 2021, the Trust closed a participation of \$1.5 million in a \$4.8 million preferred capital loan (the "Houston Preferred Capital Loan") for a portfolio of five apartment buildings located in Houston, Texas. The Houston Preferred Capital earns an interest rate of 10% per annum and matures on September 9, 2025.

On April 22, 2022, The Trust provided a \$3.5 million preferred capital loan ("South Dakota Preferred Capital Loan") for the recapitalization of a multi-residential portfolio located in Sioux Falls, South Dakota. The preferred capital loan earns 12% interest during the initial three year term.

On December 18, 2017, the Trust closed a participation in a preferred capital loan (the "New York Preferred Capital Loan"). This investment remains outstanding and available to call in full. The Trust has recorded allowances for losses and provisions for impairment on this preferred capital investment per the table below.

The Trust establishes loss provisions applicable to its preferred capital investments using a 12 month ECL approach as prescribed by IFRS 9. 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 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.

At each reporting date, the Trust assesses the borrower's ability to make contractual payments based on current market conditions. For the three months ended March 31, 2023, no further impairment provision was recorded (2022 - \$nil).

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Preferred capital investments, associated allowance for losses on preferred capital investments accounted at amortized cost at March 31, 2023 and December 31, 2022 are as follows:

	March 31, 2023				December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Preferred Capital Investments	\$ 5,171,891	\$ -	\$ 3,685,189	\$ 8,857,082	\$ 5,139,710	\$ -	\$ 3,572,364	\$ 8,712,074
Allowance for losses of preferred capital investments	-	-	(814,393)	(814,393)	-	-	(701,568)	(701,568)
Provision for impairment on preferred capital investments	-	-	(2,870,796)	(2,870,796)	-	-	(2,870,796)	(2,870,796)
<b>Preferred Capital Investments, net of allowances and provisions</b>	<b>\$ 5,171,891</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,171,891</b>	<b>\$ 5,139,710</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,139,710</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 subordinated 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.

As the functional currency of the Trust is USD, the Conversion Option was classified as an embedded derivative. 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 fair value adjustments to convertible debentures.

## 7. Mortgages and loan payable

(a) Mortgages and loan payable

	March 31, 2023	December 31, 2022
Mortgages payable	\$ 57,453,318	\$ 75,833,644
Less: Current Portion	(28,669,796)	(28,711,218)
Less: Unamortized Financing Costs	(665,809)	(613,400)
Add: Mark to Market on assumed mortgages	252,030	261,165
	<b>\$ 28,369,743</b>	<b>\$ 46,770,191</b>

As at March 31, 2023, the Trust had mortgages payable, including liability related to assets held for sale, secured by the multi-family properties of \$75,409,539 (\$57,039,539 excluding mortgage related to assets held for sale) including the current portion and net of unamortized financing costs and mark to market on assumed mortgages (December 31, 2022 - \$75,481,409) which bear interest at a weighted average interest rate of 5.75% (December 31, 2022 - 4.78%) per annum (4.59% excluding liability related to assets held for sale), and have maturity dates ranging between June 2023 and March 2038.

On February 8, 2022, the Trust assumed mortgages with a fair value of \$22.5 million (Note 3), as a result of the acquisition of the Houston, Texas Portfolio. The mortgage has interest-only payments bearing interest at 8% per annum until June 2023 and 8.5% fixed interest rate thereafter, and matures February 2024.

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On April 18, 2022, the Trust entered into an agreement with an entity affiliated to the Asset Manager of the Trust to borrow CAD \$13 million (the "Bridge Loan") to be used for the Second Houston, Texas Transaction and the South Dakota Preferred Capital Loan. Per amendment dated August 4, 2022, an additional CAD \$3 million was made available to the Trust on the facility. Summarized terms of the Bridge Loan are (i) interest rate of the greater of 6.0% per annum or the Canadian Chartered Bank Prime Rate plus a spread; (ii) two year term (iii) fully open for repayment at any time prior to maturity; (iv) 1% commitment fee. As at March 31, 2023, the balance on the Bridge Loan was \$5.1 million (CAD \$6.9 million).

On April 29, 2022, the Trust assumed mortgages with a fair value of \$11.4 million (Note 3), as a result of the Second Houston, Texas Portfolio acquisition, which bear interest at 4.90% per annum, and mature on February 28, 2028.

On August 31, 2022, the Trust closed the refinancing of a first mortgage with the Federal National Mortgage Association ("Fannie Mae") on a multi-tenant residential property located in Sunrise, Florida for \$18.37 million. The mortgage bears interest at 4.77% per annum, interest-only, maturing on September 30, 2032.

The following annual payments of principal and interest are required in respect of these mortgages and loan:

	Principal	Interest	Total
2023	\$ 6,567,272	\$ 2,668,232	\$ 9,235,504
2024	27,797,255	2,062,838	29,860,093
2025	559,974	1,877,753	2,437,727
2026	555,449	1,854,208	2,409,657
2027	529,017	1,829,606	2,358,623
Thereafter	39,814,350	8,328,796	48,143,146
	75,823,318	18,621,433	94,444,750
Less: Liability Related to Assets Held for Sale <sup>(1)</sup>	(18,370,000)	(8,324,366)	(26,694,366)
Total	\$ 57,453,318	\$ 10,297,067	\$ 67,750,384

(1) Mortgage related to assets held for sale matures in 2032.

## (b) Bank indebtedness

The Trust has entered into a revolving operating facility with a Canadian Chartered Bank (the "Bank"). The total amount available under the facility is \$2 million. The interest rate is calculated using the secured overnight interest rate ("SOFR") plus a spread of 1.50%. Amounts drawn under this facility as of March 31, 2023 were \$990,000 (December 31, 2022 - \$965,000).

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## 8. Changes in debt

The following table sets out an analysis of the movements in net debt during 2023 and 2022:

	Notes	Bank Indebtedness	Mortgages & loan	Convertible Debentures
As at December 31, 2021		\$ -	\$ 30,620,959	\$ 15,079,288
Assumed mortgages	3,7	-	22,534,391	-
Advances		850,000	-	-
Repayments		-	(169,090)	-
Finance cost amortization	7(a),13	-	22,206	-
Mark to market on assumed mortgages	7	-	(86,520)	-
Change in fair value of convertible debenture	6	-	-	227,912
Foreign exchange loss	14	-	-	268,159
<b>As at March 31, 2022</b>		<b>\$ 850,000</b>	<b>\$ 52,921,946</b>	<b>\$ 15,575,357</b>
Assumed mortgages	3,7	-	11,420,507	-
Advances		115,000	20,893,675	-
Repayments		-	(9,543,891)	-
Finance cost amortization	7(a),13	-	143,177	-
Mark to market on assumed mortgages	7	-	(354,004)	-
Change in fair value of convertible debenture	6	-	-	(2,848,047)
Foreign exchange gain	14	-	-	(1,143,970)
<b>As at December 31, 2022</b>		<b>\$ 965,000</b>	<b>\$ 75,481,410</b>	<b>\$ 11,583,342</b>
Advances	7(a),7(b)	25,000	-	-
Repayments	7(a),7(b)	-	(107,989)	-
Finance cost amortization	7(a),13	-	45,253	-
Mark to market on assumed mortgages	7(a),13	-	(9,135)	-
Change in fair value of convertible debenture	6	-	-	575,755
Foreign exchange loss	14	-	-	4,638
Liability related to asset held for sale	3,7	-	(18,370,000)	-
<b>As at March 31, 2023</b>		<b>\$ 990,000</b>	<b>\$ 57,039,539</b>	<b>\$ 12,163,735</b>

## 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

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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.

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

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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.

Trust Units as at March 31, 2023 were 7,604,375 (December 31, 2022 – 7,604,375).

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

The Trust has implemented a dividend reinvestment plan (the "**DRIP**") and a unit purchase plan (the "**Purchase Plan**") and collectively with the DRIP, the "**Plans**"), each offered to holders of trust units 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 Plans, 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.

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 Plans. The aggregate number of

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Trust Units that may be issued under the Plans 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.

During the three months ended March 31, 2023 and the year ended December 31, 2022, no Trust Units were issued under DRIP.

## (c) Unit Based Liabilities

The Trust's unit-based liabilities as at March 31, 2023 and December 31, 2022 consist of the following:

Unit Based Liabilities	Notes	March 31, 2023	December 31, 2022
Deferred Trust Units	9(d)	\$ 25,258	\$ 21,233
Warrants	9(e)	-	-
Options	9(f)	339,079	150,600
<b>Total Unit Based Liabilities</b>		<b>\$ 364,337</b>	<b>\$ 171,833</b>

## (d) Deferred Trust Units

On March 31, 2015, the Trust adopted a Deferred Trust Unit ("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, 2023, the outstanding liability was \$25,258.

For the three months ended March 31, 2023, the expense under the DTU plan was \$4,025 and recovery of \$1,517 for the three months ended March 31, 2022.

## (e) Warrants

On March 13, 2022, all outstanding warrants expired. For the three months ended March 31, 2023, the recovery for the warrants was \$nil (March 31, 2022 - \$29).

## (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.

The Trust had the following options outstanding and exercisable on March 31, 2023:

Issuance Date	Number of Options	Weighted average exercise price	Fair Value of Options	Expiry Date
August 17, 2017	340,738	\$ 7.50	\$ 157,209	August 17, 2027
November 19, 2018	188,900	8.30	97,727	November 19, 2028
March 16, 2021	42,700	7.50	37,652	March 16, 2031
March 16, 2021	60,300	8.30	46,491	March 16, 2031
<b>Total/ Weighted Average</b>	<b>632,638</b>	<b>\$ 7.82</b>	<b>\$ 339,079</b>	

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The fair value of options was calculated using the Black-Scholes model. The following assumptions were used:

Option Assumptions	March 31, 2023	December 31, 2022
Stock Price	\$ 4.33	\$ 3.64
Exercise Price	\$7.50-\$8.30	\$7.50-\$8.30
Expected Life in Years	4.38-7.96	4.63-8.21
Annualized Volatility	30.00%	30.00%
Annual Rate of Monthly Dividends	\$ 0.06	\$ 0.12
Discount Rate - Bond Equivalent Yield	4.40%	4.30%

For the three months ended March 31, 2023, the expense under the option plan was \$188,479 and recovery of \$48,769 for the three months ended March 31, 2022.

## (g) Distributions

As at March 31, 2023, no distributions were accrued.

## 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:

	CAD
Cash, Other Assets	\$ 194,962
Total Liabilities	(23,776,652)
Total	(23,581,691)
Effect of +/- 10% change in exchange rate	(2,358,169)

### 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, with exception to the Bridge Loan and bank indebtedness, 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.

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## *Credit risk*

Credit risk refers to the risk that a tenant, counterparty and/or preferred equity 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 or preferred equity borrower defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Trust obtains collateral as security.

The credit risk on cash and restricted 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.

As at March 31, 2023, Accounts Receivable balance is net of expected credit losses of \$319,742 (December 31, 2022 - \$978,765).

## *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 favorable 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 and cash equivalents, restricted cash and cash flows generated from operating activities, cash flow provided by financing activities, and divestitures of non-current assets. The mortgages for the Austin, TX portfolios mature during 2023 and the Trust is actively sourcing refinancing in the debt markets or has an imminent sale of the investment property.

## *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, bank indebtedness and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The carrying value of the Trust's financial instruments is summarized in the following table:

			March 31, 2023	December 31, 2022
	Amortized Cost	Fair Value	Fair Value	
<b>Financial Assets</b>				
Cash and Cash Equivalents	\$ 464,808	\$ 464,808	\$ 817,954	
Restricted Cash	2,055,650	2,055,650	3,189,359	
Accounts Receivable	785,335	785,335	673,259	
<b>Financial Liabilities</b>				
Accounts Payable and Accrued Liabilities	\$ 5,770,849	\$ 5,770,849	\$ 6,770,844	
Bank Indebtedness	990,000	990,000	965,000	
Mortgages and Loan Payable	57,039,539	56,482,881	72,436,681	
Liability Related to Assets Held for Sale	18,370,000	16,137,316	-	
Unit Based Liabilities	-	364,337	171,833	
Convertible Debentures Payable	-	12,163,735	11,583,342	

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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;

<b>March 31, 2023</b>	<b>Level 1</b>
Convertible Debentures Payable	\$ 12,163,735

<b>December 31, 2022</b>	<b>Level 1</b>
Convertible Debentures Payable	\$ 11,583,342

- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

<b>March 31, 2023</b>	<b>Level 2</b>
Mortgages and Loan Payable	\$ 56,482,881
Liability Related to Assets Held for Sale	16,137,316

<b>December 31, 2022</b>	<b>Level 2</b>
Mortgages and Loan Payable	\$ 72,436,681
Liability Related to Assets Held for Sale	-

- Level 3 – Inputs that are not based on observable market data.

<b>March 31, 2023</b>	<b>Level 3</b>
Unit Based Liabilities	\$ 364,337

<b>December 31, 2022</b>	<b>Level 3</b>
Unit Based Liabilities	\$ 171,833

The fair value of the mortgages, including the liability related to assets held for sale, is estimated based on the present value of future payments, discounted at a yield on a U.S. Government bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage (Level 2). The mortgages are carried at amortized cost of \$57,039,539 (December 31, 2022 - \$75,481,410) and the liability related to assets held for sale is carried at amortized cost of \$18,370,000 (December 31, 2022 - \$nil). The mortgages have an estimated fair value of approximately \$56.5 million (December 31, 2022 - \$73.4 million) and the liability related to assets held for sale has an estimated fair value of approximately \$16.1 million (December 31, 2022 - \$nil).

The fair value of unit-based liabilities relates to options granted which are carried at fair value, estimated using the Black-Scholes model for option valuation (Level 3) as outlined in note 9(f).

There were no transfers between levels during the three months ended March 31, 2023 and the year ended December 31, 2022.

## 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 as at March 31, 2023.

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023, and 2022

(Expressed in US Dollars unless otherwise noted)

(Unaudited)

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## 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:

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 dishonored 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.

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(Expressed in US Dollars unless otherwise noted)

(Unaudited)

**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, 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 an 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**").

The Trust entered into an agreement with an entity related to the Asset manager of the Trust, to borrow CAD \$16 million to be used for the Second Houston, TX acquisition and Preferred Capital Investment. Terms of the Bridge Loan are described in note 7 of these condensed consolidated interim financial statements. During the three months ended March 31, 2023, the Trust paid \$235,770 (CAD \$298,568) of interest associated with the Bridge Loan. As at March 31, 2023, the balance on the Bridge Loan was \$5.1 million (CAD \$6.9 million).

For the three months ended March 31, 2023, asset management fees were \$365,180 (March 31, 2022 - \$345,636), loan servicing fees were \$nil (March 31, 2022 - \$8,768), acquisition fees were \$nil (March 31, 2022 - \$163,750), debt placement fees were \$nil (March 31, 2022 - \$27,662) and property management fees were \$24,905 (March 31, 2022 - \$22,842).

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. Transaction costs associated with the acquisition are capitalized to investment properties.

As at March 31, 2023, the Trust has accrued \$2,957,569 (December 31, 2022 - \$2,638,621) 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, 2023 and 2022 are as follows:

	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	<b>March 31, 2022</b>
<b>Property Operating Expenses</b>		
Property Taxes	\$ 461,326	\$ 386,089
Insurance	184,985	121,279
Operating Expenses	1,159,637	684,382
<b>Total</b>	<b>\$ 1,805,948</b>	<b>\$ 1,191,750</b>

# FIRM CAPITAL APARTMENT REAL ESTATE INVESTMENT TRUST

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(Expressed in US Dollars unless otherwise noted)

(Unaudited)

	Three Months Ended	
	March 31, 2023	March 31, 2022
<b>General and Administrative</b>		
Asset Management Fees (note 12)	\$ 381,009	\$ 354,404
Public Company Expenses	1,087	6,851
Office and General	165,062	34,636
Total	\$ 547,158	\$ 395,891

	Three Months Ended	
	March 31, 2023	March 31, 2022
<b>Finance Costs</b>		
Bank interest expense	\$ 1,069,959	\$ 481,016
Convertible debenture interest expense	238,294	238,294
Mark to market on assumed mortgages	(9,135)	(86,520)
Finance cost amortization	45,253	22,206
Total	\$ 1,344,371	\$ 654,995

## 14. Foreign Exchange Gain

The foreign exchange gain for the three months ended March 31, 2023 and 2022 are as follows:

	Three Months Ended	
	March 31, 2023	March 31, 2022
<b>Foreign Exchange Gain</b>		
Foreign exchange gain (loss) on convertible debentures (note 8)	\$ (4,638)	\$ (268,159)
Foreign exchange gain (loss)	3,404	(2,281)
Total	\$ (1,234)	\$ (270,439)

## 15. Subsequent Event

Subsequent to March 31, 2023, the Trust entered into an Agreement of Purchase and Sale to sell its investment property located in New Jersey for gross proceeds of \$19.5 million (\$5.6 million net of associated mortgage and closing costs). The closing of this sale is expected to occur prior to the end of June 2023.