

**AP Capital REIT**  
**Consolidated Financial Statements**  
*Expressed in Canadian Dollars*  
*Year Ended December 31, 2020*

# AP Capital REIT

## Contents

*Expressed in Canadian Dollars  
For the year ended December 31, 2020*

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### Page

#### Independent Auditor's Report

#### Consolidated Financial Statements

Consolidated Statement of Financial Position.....	1
Consolidated Statement of Income and Other Comprehensive Income .....	2
Consolidated Statement of Changes in Unitholders' Equity.....	3
Consolidated Statement of Cash Flows .....	4
Notes to the Consolidated Financial Statements.....	5 - 22

## Independent Auditor's Report

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To the Unitholders of AP Capital REIT:

### Opinion

We have audited the consolidated financial statements of AP Capital REIT (the "REIT"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of income (loss) and other comprehensive income (loss), changes in unitholder's equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Vancouver, British Columbia

April 29, 2021

*MNP LLP*

Chartered Professional Accountants

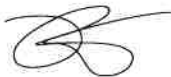
**AP Capital REIT**  
**Consolidated Statement of Financial Position**

*Expressed in Canadian Dollars*

*As at December 31, 2020*

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties (Note 4)	68,811,521	70,458,161
Restricted funds held in trust (Note 5)	678,367	391,948
Deferred lease inducement	270,103	233,420
	<b>69,759,991</b>	<b>71,083,529</b>
<b>Current assets</b>		
Cash and cash equivalents	2,331,938	2,095,240
Trade and other receivables	542,023	522,930
Prepaid expenses and deposits	426,414	428,810
	<b>3,300,375</b>	<b>3,046,980</b>
<b>Total assets</b>	<b>73,060,366</b>	<b>74,130,509</b>
 <b>Liabilities</b>		
<b>Non-current liabilities</b>		
Long-term debt, non-current portion (Note 5)	34,102,699	34,819,375
Tenant deposits	383,943	484,542
	<b>34,486,642</b>	<b>35,303,917</b>
<b>Current liabilities</b>		
Current portion of long-term debt (Note 5)	14,143,788	14,351,391
Trade payable and accrued liabilities (Note 14)	1,547,140	1,651,084
Distributions payable (Note 8)	250,000	-
	<b>15,940,928</b>	<b>16,002,475</b>
<b>Total liabilities</b>	<b>50,427,570</b>	<b>51,306,392</b>
 <b>Equity</b>		
Unitholders' equity (Note 6)	20,799,144	21,062,347
Non-controlling interests (Note 7)	1,833,652	1,761,770
<b>Total equity</b>	<b>22,632,796</b>	<b>22,824,117</b>
<b>Total liabilities and equity</b>	<b>73,060,366</b>	<b>74,130,509</b>

Approved on behalf of the Board on April 29, 2021,



Director



Director

The accompanying notes are an integral part of these consolidated financial statements

**AP Capital REIT**  
**Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss)**

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

	2020	2019
<b>Revenue</b>		
Rental income (Note 17)	5,256,380	5,440,287
Cost recoveries	1,816,710	1,836,076
	<b>7,073,090</b>	<b>7,276,363</b>
<b>Operating expenses</b>		
Property taxes	752,709	742,423
Repairs and maintenance	303,485	764,225
Utilities	331,335	285,081
Property management (Note 14)	239,098	226,198
Janitorial	214,063	252,952
Security	91,363	100,837
Insurance	95,825	93,202
Recoverable general and administrative costs	40,485	43,929
	<b>2,068,363</b>	<b>2,508,847</b>
Net operating income	<b>5,004,727</b>	<b>4,767,516</b>
<b>Other expenses (income)</b>		
Fair value adjustments to investment properties (Note 4)	1,169,452	2,320,843
General and administrative	160,306	154,403
Leasing commissions	18,810	285,375
Fund management fees (Note 14)	236,194	237,499
Professional and consulting fees	172,860	179,045
Distribution and filing fees	16,617	24,141
	<b>1,774,239</b>	<b>3,201,306</b>
<b>Net income before finance expenses</b>	<b>3,230,488</b>	<b>1,566,210</b>
Interest on long-term debt	2,244,127	2,790,116
<b>Net income (loss) for the year</b>	<b>986,361</b>	<b>(1,223,906)</b>
<b>Other comprehensive income (loss)</b>		
Foreign currency translation loss - unrealized	(389,380)	(862,079)
<b>Comprehensive income (loss) for the year</b>	<b>596,981</b>	<b>(2,085,985)</b>
<b>Net earnings (loss) attributable to:</b>		
Unitholders of the REIT	888,537	(1,581,424)
Non-controlling interests (Note 7)	97,824	357,517
<b>Net earnings (loss)</b>	<b>986,361</b>	<b>(1,223,906)</b>
<b>Other comprehensive income (loss) attributable to:</b>		
Unitholders of the REIT	(363,438)	(797,164)
Non-controlling interests (Note 7)	(25,942)	(64,915)
<b>Other comprehensive income (loss)</b>	<b>(389,380)</b>	<b>(862,079)</b>
<b>Net earnings (loss) per unit</b>	<b>30.99</b>	<b>(53.54)</b>
<b>Weighted average number of units</b>	<b>28,672,2347</b>	<b>29,535,3865</b>

The accompanying notes are an integral part of these consolidated financial statements

**AP Capital REIT**  
**Consolidated Statement of Changes in Unitholders' Equity**  
*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

	Number of Class A Units	Number of Class B Units	Number of Class C1 Units	Number of Class C2 Units	Number of Class F Units	Number of Class G Units	Number of Class H Units	Total Number of Units	Unitholders' Equity	Accumulated Non-Controlling Interests	Accumulated Distributions	Retained Earnings	Accumulated Other	Total Equity	Non-Controlling Interests	Unitholders' Equity
													Comprehensive Income			
Balance as at December 31, 2018	6,000	-	1,814,783	2,625,753	16,583,591	5,565,366	3,176,436	29,771,932	29,525,699	1,074,210	(6,196,108)	2,048,192	662,481	27,114,474	1,469,168	25,645,306
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	(1,223,906)	-	(1,223,906)	357,517	(1,581,423)
Distributions payable (Note 8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions paid in cash	-	-	-	-	-	-	-	-	-	-	(525,257)	-	-	(525,257)	-	(525,257)
Units issued from distribution reinvestment plan (Note 9)	-	-	12,468	10,967	204,667	83,915	18,268	330,286	330,281	-	(330,281)	-	-	-	-	-
Units issued for cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units cancelled and Class F units units issued (Note 6)	-	-	-	-	1,778,679	-	(1,532,136)	246,542	-	-	-	-	-	-	-	-
Units redeemed for cash (Note 6)	-	-	-	-	-	-	(1,662,562)	(1,662,562)	(1,662,563)	-	-	-	-	(1,662,563)	-	(1,662,563)
Issuance costs	-	-	-	-	-	-	-	-	(16,552)	-	-	-	-	(16,552)	-	(16,552)
Other comprehensive income	-	-	-	-	-	-	-	-	-	(64,915)	-	-	(797,164)	(862,079)	(64,915)	(797,164)
<b>Balance as at December 31, 2019</b>	<b>6,000</b>	<b>-</b>	<b>1,827,254</b>	<b>2,636,721</b>	<b>18,566,938</b>	<b>5,649,281</b>	<b>-</b>	<b>28,686,192</b>	<b>28,176,865</b>	<b>1,009,295</b>	<b>(7,051,646)</b>	<b>824,286</b>	<b>(134,683)</b>	<b>22,824,117</b>	<b>1,761,770</b>	<b>21,062,347</b>
														Net asset value per unit		734.23
Balance as at December 31, 2019	6,000	-	1,827,254	2,636,721	18,566,938	5,649,281	-	28,686,192	28,176,865	1,009,295	(7,051,646)	824,286	(134,683)	22,824,117	1,761,770	21,062,347
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	986,361	-	986,361	97,824	888,537
Distributions payable (Note 8)	-	-	-	-	-	-	-	-	-	-	(250,000)	-	-	(250,000)	-	(250,000)
Distributions paid in cash	-	-	-	-	-	-	-	-	-	-	(500,000)	-	-	(500,000)	-	(500,000)
Units issued for cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units redeemed for cash (Note 6)	-	-	-	-	-	(14,651)	-	(14,651)	(8,462)	-	-	-	-	(8,462)	-	(8,462)
Issue costs	-	-	-	-	-	-	-	-	(29,840)	-	-	-	-	(29,840)	-	(29,840)
Other comprehensive income	-	-	-	-	-	-	-	-	-	(25,942)	-	-	(363,438)	(389,380)	(25,942)	(363,438)
<b>Balance as at December 31, 2020</b>	<b>6,000</b>	<b>-</b>	<b>1,827,254</b>	<b>2,636,721</b>	<b>18,566,938</b>	<b>5,634,630</b>	<b>-</b>	<b>28,671,541</b>	<b>28,138,563</b>	<b>983,353</b>	<b>(7,801,646)</b>	<b>1,810,647</b>	<b>(498,121)</b>	<b>22,632,796</b>	<b>1,833,652</b>	<b>20,799,144</b>
														Net asset value per unit		725.43

**AP Capital REIT**  
**Consolidated Statement of Cash Flows**

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

	2020	2019
<b>Cash flows from operating activities</b>		
<b>Operating net income (loss) for the year</b>	<b>986,361</b>	<b>(1,223,906)</b>
<b>Items not affecting cash</b>		
Amortization of mortgage transaction costs	119,871	400,997
Changes in fair value adjustments to investment properties	1,169,452	2,320,843
Interest expense	2,124,256	2,357,177
Deferred lease inducement	(36,683)	(233,420)
	<b>4,363,257</b>	3,621,691
<b>Changes in non-cash working capital items:</b>		
Increase in trade and other receivables	(19,093)	(30,787)
(Increase) decrease in prepaid expenses and deposits	2,396	(12,724)
Decrease in trade payable and accrued liabilities	(103,944)	(194,225)
Decrease in tenant deposits	(100,599)	(34,915)
	<b>4,142,017</b>	3,349,040
<b>Cash flows from financing activities</b>		
Issuance costs	(29,840)	(16,552)
Distributions to unitholders in cash	(500,000)	(525,257)
Units redeemed for cash	(8,462)	(1,662,563)
Proceeds from (repayments of) long-term debt	(358,838)	3,151,311
Interest paid on long-term debt	(2,200,183)	(2,316,483)
Payments of mortgage transaction costs	-	(912,339)
	<b>(3,097,323)</b>	(2,281,883)
<b>Cash flow from investing activities</b>		
Capital additions	(497,385)	(561,776)
(Increase) decrease in restricted funds held in trust	(286,419)	704,473
	<b>(783,804)</b>	142,697
<b>Net effect of translation of foreign currency</b>	<b>(24,192)</b>	<b>(152,586)</b>
<b>Net change in cash and cash equivalents</b>	<b>236,698</b>	<b>1,057,268</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,095,240</b>	<b>1,037,972</b>
<b>Cash and cash equivalents, end of year</b>	<b>2,331,938</b>	<b>2,095,240</b>

Supplementary cash flow information in Note 11.



# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 1. Nature of operations

AP Capital REIT (the "REIT") is a limited purpose, unincorporated open-ended investment trust, governed by the terms and conditions of a Declaration of Trust dated June 26, 2015 and by the general laws of trusts and the laws of British Columbia. The principal office of the REIT is located in Suite 1795 - 555 Burrard Street, Vancouver, British Columbia.

The REIT commenced operations on June 26, 2015. The principal activities of the REIT are the ownership and management of a diversified portfolio of retail and commercial mixed-use properties.

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the REIT's environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the REIT's operations. The extent of the impact of this outbreak and related containment measures on the REIT's operations have been reduced sales for retail and business tenants, deferral of lease payments and breached lease agreements.

### 2. Basis of presentation and statement of compliance

#### a. Statement of compliance

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs") and effective for the year ended December 31, 2020.

These consolidated financial statements for the year ended December 31, 2020 were authorized for issue by the Board of Directors of the Trustee (the "Board") on April 29, 2021.

#### b. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the REIT's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3(n).

#### c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the REIT's functional currency.

Assets and liabilities of foreign operations are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of dilution or sale, or reduction in the equity of the foreign operation as a result of a capital transaction, amounts previously recognized in accumulated other comprehensive income are reclassified into net income.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 3. Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### a. Basis of consolidation

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries, over which the REIT has control. Control exists when the REIT has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The non-controlling interests are included in the REIT's equity. The financial statements of subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the REIT and its 99.99% owned subsidiaries; AP Capital REIT Limited Partnership ("CDN LP"), AP Capital REIT (CDN/US) Limited Partnership, and AP Capital REIT Cobblestone Limited Partnership ("Cobblestone LP"), its 88.06% owned subsidiary, AP Capital REIT (USA) Limited Partnership ("US LP") and AP Capital Holdings Limited Partnership ("Holdings LP"), a wholly-owned subsidiary of US LP (collectively, the "Limited Partnerships").

The REIT has entered into four agreements with these parties in the form of limited partnerships. The REIT determined that it has control over the Limited Partnerships. The REIT consolidates these entities and recognizes the non-controlling interests (Note 7) on its consolidated financial statements.

#### b. Property acquisitions and business combinations

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. The basis of the judgment is set out in Note 3(n).

Where such acquisitions are not determined to be a business combination, they are treated as an asset acquisition. The cost to acquire the property is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. Otherwise, acquisitions are accounted for as a business combination.

All acquisitions to date have been determined to be asset acquisition.

#### c. Investment properties

Investment properties comprise of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services, acquisition fees and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value. The REIT defines fair value to be the value a third party is willing to pay, in an arm's length transaction, for an investment property. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the statement of net income and other comprehensive income in the year which they arise.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of net income and other comprehensive income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 3. Significant accounting policies (continued)

#### d. Leases

CDN LP, through its nominee, 1904934 Alberta Ltd., a bare trust corporation (Note 4), Holdings LP and Cobblestone LP are the lessors in all leasing arrangements. Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the Limited Partnerships to the lessees are accounted for as finance leases. All current leases of the Limited Partnerships are operating leases.

#### e. Cash and cash equivalents

Cash consists of cash on hand and cash held at banks. Cash equivalents include short-term investments with original maturities of three months or less from the acquisition date.

#### f. Allocation of net income or net loss

Net income or loss of the Limited Partnerships from the ordinary course of operations of the properties will be allocated as follows:

- Firstly, 0.01% to each of the General Partners to a maximum of \$100 per annum;
- 11.94% of the non-controlling interest's income or loss attributed to Tandem Assets 1 Limited Partnership ("Tandem") which is allocated based on the income or loss associated with the US LP; and
- The balance, to the holders of Class A and Class B units at a net income or loss allocation formula as outlined in the Limited Partnership Agreements.

#### g. Equity issuances and redemptions

Issuances of units are recorded as increases in equity equal to the gross proceeds received while redemptions of units are recorded as decreases in equity equal to its redemption value. Incremental costs directly attributable to the issuance of new units are recorded as reductions in equity as issue costs.

#### h. Revenue recognition

Rental revenue is recognized in income on a straight-line basis over the lease term subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured. Parking and other incidental income are recognized in the period when the services were performed. Lease inducements offered by the REIT are amortized on a straight-line basis over the lease term and are recognized as an offset against rental revenue.

#### i. Net earnings (loss) per unit

Basic net earnings (loss) per unit has been calculated based on the weighted average number of units outstanding.

#### j. Net asset value

The net asset value per unit has been calculated based on the number of units outstanding as at year-end. The value has been applied equally across all shares.

#### k. Financial instruments

##### Financial assets

##### Recognition and initial measurement

The REIT recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 3. Significant accounting policies (continued)

#### *k. Financial instruments (continued)*

##### ***Classification and subsequent measurement***

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue, if any, is calculated using the effective interest method and gains or losses, if any, arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost consist of cash and cash equivalents, trade and other receivables and restricted funds held in trust.

##### ***Impairment***

The REIT assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through breaches of lease agreements.

Provisions for bad debts are presented in the consolidated statement of financial position as a deduction from the gross carrying amount of the financial assets.

Financial assets are written off when the REIT has no reasonable expectations of recovering all or any portion thereof.

##### ***Derecognition of financial assets***

The REIT derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

##### ***Financial liabilities***

##### ***Recognition and initial measurement***

The REIT recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the REIT measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

##### ***Classification and subsequent measurement***

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest and gains and losses relating to a financial liability are recognized in profit or loss. Financial liabilities measured at amortized cost consist of trade payable and accrued liabilities and long-term debt.

##### ***Derecognition of financial liabilities***

The REIT derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

##### ***Interest on financial assets and financial liabilities***

Interest income and expense, which are recognized in profit or loss, are calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 3. Significant accounting policies (continued)

#### ***k. Financial instruments (continued)***

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

#### ***l. Income taxes***

The REIT is taxed as a "mutual fund trust" under the Income Tax Act (Canada). Pursuant to the Declaration of Trust and subject to the specific investment flow through ("SIFT") rules, the Board intends to distribute or designate all taxable income to the unitholders of the REIT and to deduct such distributions and designations for Canadian Income Tax purposes. Accordingly, the REIT is not taxable on its income provided all of its taxable income is distributed to the unitholders.

The REIT is subject to taxation in the United States and Arizona on the taxable income earned by the US LP and Cobblestone LP. A deferred income tax liability arises from the temporary differences between the carrying value and the tax basis of the net assets of the US Limited Partnerships. As at December 31, 2020, the temporary difference is insignificant; therefore a deferred income tax liability was not recorded.

#### ***m. Fair value***

The REIT measures investment properties at fair value at the end of each reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

#### ***n. Significant accounting judgments and estimates***

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

##### ***Judgments***

In the process of applying the REIT's accounting policies, management has made the following critical judgments, which have the most significant effects on the amounts recognized in the consolidated financial statements:

##### ***Asset acquisitions***

The REIT acquires individual investment properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination under IFRS 3 *Business Combinations*, where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.).

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 3. Significant accounting policies (continued)

#### *n. Significant accounting judgments and estimates (continued)*

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized. All acquisitions to date have been determined to be asset acquisitions.

##### *Lease contracts*

The REIT has entered into property leases on its investment property portfolio. The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms, are operating or finance leases. The REIT must assess each lease separately against land and building. The REIT has determined that all of its leases of land and buildings are operating leases.

##### *Estimates*

###### *Valuation of investment properties*

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment property are set out in Note 4.

#### *o. Provisions*

Provisions are recognized by the REIT when: i) the REIT has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount can be reasonably estimated. If the time value of money is material, provisions are discounted using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as interest expenses.

#### *p. Government assistance*

The REIT recognizes government assistance as revenue when there is reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The REIT recognizes government assistance in rental revenue as the assistance related to rent reductions provided to the tenants in the period in which they are earned.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

### 3. Significant accounting policies (continued)

#### *q. Changes in accounting policies*

##### **Standards and Interpretations adopted in the current year**

##### *IFRS 3 Business Combinations*

Effective January 1, 2020 (hereafter referred to as the “date of initial application”), the REIT adopted IFRS 3 *Business Combinations*. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The REIT has determined that the adoption of this standard has had no material impact on its financial statements.

### 4. Investment properties

On June 30, 2015, the REIT, through the CDN LP, acquired Morrison Centre (“Morrison”), a commercial mixed-use property in Fort McMurray, Alberta for \$25,000,000 plus standard closing costs and adjustments. Morrison was acquired from 1576697 Alberta Ltd., a related party (Note 14). The legal title to the Morrison property and the related loan with Servus Credit Union Loan (Note 5) are registered under a bare trust corporation, 1904934 Alberta Ltd., on behalf of the REIT, covered by a Beneficial Ownership Agreement.

On October 29, 2015, the REIT, through the US LP, acquired Greenway Park Plaza (“Greenway”) in Phoenix, Arizona for USD \$23,100,000 plus standard closing costs and adjustments. On September 4, 2019, Greenway was transferred to Holdings LP, a wholly-owned subsidiary of USA LP, under a Special Warranty Deed.

On November 30, 2016, the REIT, through the Cobblestone LP, acquired Cobblestone Village (“Cobblestone”) in Phoenix, Arizona for USD \$11,200,000 plus standard closing costs and adjustments.

The balance of the investment properties is determined as follows:

<u>For the year ended December 31, 2020</u>	<u>Morrison</u>	<u>Greenway</u>	<u>Cobblestone</u>	<u>Total</u>
Balance, January 1, 2020	14,350,001	38,184,720	17,923,440	<b>70,458,161</b>
Capital additions	22,670	260,478	214,237	<b>497,385</b>
Change in unrealized foreign exchange gain (loss)	-	(660,369)	(314,204)	<b>(974,573)</b>
Changes in fair value adjustments to properties	(1,072,670)	(607,389)	510,607	<b>(1,169,452)</b>
<b>Balance, December 31, 2020</b>	<b>13,300,001</b>	<b>37,177,440</b>	<b>18,334,080</b>	<b>68,811,521</b>

<u>For the year ended December 31, 2019</u>	<u>Morrison</u>	<u>Greenway</u>	<u>Cobblestone</u>	<u>Total</u>
Balance, January 1, 2019	19,925,001	36,833,400	17,871,020	<b>74,629,421</b>
Capital additions	-	519,153	42,623	<b>561,776</b>
Change in unrealized foreign exchange gain (loss)	-	(1,638,563)	(773,630)	<b>(2,412,193)</b>
Changes in fair value adjustments to properties	(5,575,000)	2,470,730	783,427	<b>(2,320,843)</b>
<b>Balance, December 31, 2019</b>	<b>14,350,001</b>	<b>38,184,720</b>	<b>17,923,440</b>	<b>70,458,161</b>

As set out in Note 3(c), the fair value of recently acquired investment property would be the purchase price plus capital additions and unrealized foreign exchange gain since acquisition.

In subsequent years, the fair value of the investment properties will be determined on a market value basis. In arriving at their estimates of market values, management and the independent appraisers will use their market knowledge and professional judgment and will not rely solely on historical transactional comparisons.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

#### 4. Investment properties (continued)

The appraisals will be performed by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management will review each appraisal and ensure that the assumptions used are reasonable and the final fair value amount will reflect those assumptions, which are used in the determination of the fair market values of the properties.

#### 5. Long-term debt

Long-term debt is recorded at amortized cost and is secured by first charges on the REIT's investment properties, with a carrying and fair value of \$73,142,310 and \$68,811,521 (2019 - \$73,619,499 and \$70,458,161), respectively. Included in long-term debt are unamortized mortgage transaction costs, which are amortized over the term of each mortgage using the effective interest rate method.

	<b>2020</b>	<b>2019</b>
Servus Credit Union Mortgage Facility ("Servus"), bearing interest at 3.55% per annum (2019 – 4.50%), payable in monthly blended installment payments of \$100,350 (2019 – \$112,655) with term expiring on May 7, 2025, secured by the Morrison property	<b>14,134,661</b>	14,339,887
Less: unamortized mortgage transaction costs	<b>(28,120)</b>	(30,016)
	<b>14,106,541</b>	14,309,871
Wells Fargo Bank Loan ("Wells Fargo Greenway"), bearing interest at 3.80% per annum, interest only payments until September 30, 2022, due October 1, 2029, secured by the Greenway property, payable in USD \$20,500,000.	26,100,600	26,625,400
Less: unamortized mortgage transaction costs	(758,694)	(863,251)
	<b>25,341,906</b>	<b>25,762,149</b>
Wells Fargo Bank Loan ("Wells Fargo Cobblestone"), bearing interest at 5.306% per annum, payable in monthly blended installment payments of \$52,708 (USD \$41,398), with term expiring on December 6, 2026, secured by the Cobblestone property, payable in USD \$7,023,692 (2019 – USD \$7,112,157)	8,942,565	9,271,094
Less: unamortized mortgage transaction costs	(144,525)	(172,349)
	<b>8,798,040</b>	9,098,745
	<b>48,246,487</b>	49,170,765
<b>Less: Current portion of long-term debt</b>	<b>14,143,788</b>	14,351,391
<b>Long-term debt, non-current portion</b>	<b>34,102,699</b>	34,819,374

The Servus loan is also secured by a joint and several guarantee of \$2,000,000 by certain directors of the REIT. As the Servus loan is on demand, it has been included in the current portion of long-term debt. The Wells Fargo Cobblestone loan is also guaranteed by certain directors of the REIT.

Under the terms of the loan agreements, the REIT is required to comply with certain loan covenants. As at December 31, 2020, the REIT did not meet its covenants related to the Servus loan, which is presented as a current liability, however, all other bank covenants were met. Subsequent to year-end, Servus was made aware of the covenant breach and indicated that it does not intend to demand repayment of the loan within the next year.

In accordance with the loan agreements with Wells Fargo Greenway and Wells Fargo Cobblestone, the REIT is required to set aside funds for future capital expenditures and tenant improvements. As at December 31, 2020, \$575,576 and \$102,791 of funds were set aside for Wells Fargo Greenway and Wells Fargo Cobblestone, respectively, for a total of \$678,367 (2019 – \$391,948). These funds have been classified as restricted funds held in trust.



# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 5. Long-term debt (continued)

Principal repayments, as of December 31, 2020, based on scheduled repayments to be made on the long-term debt are as follows:

2021	723,185
2022	863,485
2023	1,302,002
2024	1,353,966
2025	11,713,408
Thereafter	<u>32,290,441</u>
	<u>48,246,487</u>

### 6. Unitholders' equity

Under the Declaration of Trust, the REIT is authorized to issue unlimited number of redeemable REIT units. All of the REIT units are voting and without par value. The Trustee will have the power and authority, from time to time, for and on behalf of the REIT, to create one or more classes or series of units on such terms and conditions as may be determined by the Trustee. All of the units in any class or series will have the same rights, benefits and other attributes and will rank equally with every other unit in such class or series.

The REIT has currently created ten classes of units being Class A, Class B, Class C1, Class C2, Class D1, Class D2, Class E, Class F, Class G, and Class H Units. All units of each class, other than Class B units, are entitled to participate equally with respect to any and all distributions made by the REIT to the unitholders, including distributions of net income (loss) and net realized capital gains (loss), if any.

#### a. Class A units

No Class A units were issued during the year ended December 31, 2020 and 2019.

The price per Class A unit is \$1,000.

#### b. Class B units

No Class B units were issued during the year ended December 31, 2020 and 2019.

The price per Class B unit is \$1,000.

#### c. Class C1 units

The REIT issued no Class C1 units (2019 – 12.4683) as part of the DRIP (Note 9).

The REIT issued no Class C1 units for cash proceeds (2019 – nil).

The price per Class C1 unit is \$1,000.

#### d. Class C2 units

The REIT issued no Class C2 units (2019 – 10.9671) as part of the DRIP (Note 9).

The REIT issued no Class C2 units for cash proceeds (2019 – nil)

The price per Class C2 unit is \$1,000.

#### e. Class F units

The REIT issued no Class F units (2019 – 204.6673) as part of the DRIP (Note 9).

The REIT issued no Class F units for proceeds (2019 – nil).

The unitholders redeemed no Class F units during the year (2019 – nil).

In 2019, the REIT issued 1,778.6796 Class F units after cancelling 1,532.1368 Class H units.

The price per Class F unit is \$1,000.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 6. Unitholders' equity (continued)

#### *f. Class G Units*

The REIT issued no Class G units (2019 – 83.9151) as part of the DRIP (Note 9).

The REIT issued no Class G units for cash proceeds (2019 - \$nil).

The unitholders redeemed no Class G units during the year (2019 – nil).

The price per Class G unit is \$1,000.

#### *g. Class H units*

The REIT issued no Class H units (2019 – 18.2628) as part of the DRIP (Note 9).

The REIT issued no Class H units for cash proceeds (2019 – \$nil).

The unitholders redeemed 14.6510 Class H units (2019 – 1,662.5629) for gross proceeds of \$8,462 (2019 - \$1,662,563).

The price per Class H unit is \$1,000.

### **Redemption rights**

Redemption of units by unitholders is restricted under the terms of the Declaration of Trust governing the REIT. The total amount payable by the REIT by cash payment in respect of the redemption of units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding units. A maximum of 10% of the issued and outstanding REIT units are considered liability instruments under IFRS because these units are redeemable at the option of the holder, however they are presented as equity in accordance with IAS 32.

#### *a. Class B units*

There is no redemption penalty amount applicable to Class B units. The holders of Class B units may not redeem units until twelve months after the subscription date and will receive a redemption bonus equal to \$60 per unit, pro-rated based on the number of days during which the units were outstanding.

#### *b. Class C1 units*

A redemption penalty amount of 3% to 7% of the subscription price paid is applicable depending on the hold period of the units from the subscription date: 7% within twelve months, decreasing by 1% for each subsequent additional term of twelve months. There will be no redemption penalty amount if the units have been held for more than sixty months.

#### *c. Class C2 units*

A redemption penalty amount of 1% to 2% of the subscription price paid is applicable depending on the hold period of the units from the subscription date: 2% within twelve months and 1% between thirteen to twenty-four months. There will be no redemption penalty amount if the units have been held for more than twenty-four months.

#### *d. Class F units*

There is no redemption penalty amount applicable to Class F units. The holder of Class F units may deliver redemption notices to the Trustee at any time.

#### *e. Class G units*

A redemption penalty amount of \$350 per unit is applicable where the request for redemption occurs within twelve months from the subscription date. There will be no redemption penalty amount if the units have been held for more than twelve months.

#### *f. Class H units*

There is no redemption penalty amount applicable to Class H units. The holder of Class H units may deliver redemption notices to the Trustee at any time.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

### 7. Non-controlling interests

The non-controlling interests include the initial capital contribution of \$10 made to the REIT by the settlor of the REIT in order to settle and establish the REIT under the Declaration of Trust.

The non-controlling interests also include the \$10 cash contributions made by each of the four General Partners of the Limited Partnerships, for a total of \$40.

During the year ended December 31, 2016, the loan payable to Tandem of \$1,074,160 (USD \$800,000) was converted to equity of the US LP. The conversion has given rise to a non-controlling interest whereby Tandem has claim to 11.94% of the assets, liabilities and operations of the US LP. Tandem's proportionate share of the assets, liabilities, revenues and expenses is as follows:

	2020	2019
Current assets	230,286	255,574
Non-current assets	4,539,960	4,628,205
<b>Total assets</b>	<b>4,770,246</b>	<b>4,883,779</b>

	2020	2019
Current liabilities	75,397	92,228
Non-current liabilities	3,025,824	3,076,001
<b>Total liabilities</b>	<b>3,101,221</b>	<b>3,168,229</b>

	2020	2019
Revenues	462,449	461,671
Expenses	(364,625)	104,154
Net income before other comprehensive income	97,824	357,517
Other comprehensive income (loss)	(25,942)	(64,915)

### 8. Distributions

The REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15<sup>th</sup> day of the following month. The REIT determines the distribution rate by, among other considerations, its assessment of cash flows as determined using adjusted cash flows from operating activities of its Limited Partnerships. The distribution rate is determined by the Board, at their sole discretion, based on what they consider appropriate given the circumstances of the REIT. Distributions may be adjusted for amounts paid in prior periods if the actual adjusted cash flows from operating activities for those prior periods are greater or less than the estimates used for those prior periods. In addition, the Board may declare distributions out of the income, net realized capital gains, net recapture income and capital of the REIT to the extent such amounts have not already been paid, allocated or distributed.

As at December 31, 2020, distributions payable total \$250,000 (2019 - \$nil).

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

### 9. Distribution reinvestment plan

The Distribution Reinvestment Plan (“DRIP”) allows holders of REIT units to elect to have all cash distributions from the REIT reinvested in additional units of the same classes of units held. No commission, service charges or brokerage fees are payable by participants in connection with the DRIP. Cash undistributed by the REIT upon the issuance of additional units under the DRIP will be invested in the REIT to be used for future property acquisitions, capital improvements and working capital.

For the year ended December 31, 2020, there were no units issued under the DRIP.

For the year ended December 31, 2019, the following units were issued under the DRIP at \$1,000 per unit:

- 12.4683 of Class C1 units for \$12,468,
- 10.9671 of Class C2 units for \$10,967,
- 204.6673 of Class F units for \$204,667,
- 83.9151 of Class G units for \$83,915, and
- 18.2628 of Class H units for \$18,263

For a total amount of \$330,280.

### 10. Operating leases – REIT as a lessor

The REIT has entered into leases with tenants on its investment property portfolio. The leases typically have initial lease terms ranging between five and twenty years with periodic upward revision of the rental charge according to the prevailing market conditions.

Future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

	2020	2019
Within one year	4,547,572	4,764,660
Two to five years	13,061,319	13,413,139
Over five years	6,665,858	7,178,263
	<b>24,274,749</b>	<b>25,356,062</b>

### 11. Supplementary cash flow information

#### **Non-cash transaction**

The REIT issued nil units (2019 - 330.2806 units) at a value of \$1,000 per unit for a total of \$nil (2019 - \$330,280) as distribution reinvestment (Note 9).

### 12. Capital management

The REIT defines capital as the aggregate of unitholders' equity, loans payable, if any, and long-term debt. The REIT's objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the offering memorandum, complies with existing debt covenants, funds its business strategies and builds long-term unitholders' value. The REIT's capital structure is approved by the Board through its periodic reviews.

The REIT's capital management objectives and strategies are unchanged since June 26, 2015, the date of commencement of operations.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

### 13. Financial instruments

#### Fair value of financial instruments

For certain REIT financial instruments, including cash and cash equivalents, trade and other receivables, and trade payable and accrued liabilities, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair values of long-term debt are determined by discounting the future contractual cash flow under current financing arrangements at discount rates that represent borrowing rates presently available to the REIT for loans with similar terms and maturity and measured under level 2 fair value hierarchy since the discount rates are either provided by the lenders or are observable on the open market.

The following table presents the amortized costs and fair values of the REIT's financial instruments:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Cash and cash equivalents	2,331,938	2,331,938	2,095,240	2,095,240
Restricted funds held in trust	678,367	678,367	391,948	391,948
Trade and other receivables	542,023	542,023	522,930	522,930
Trade payable and accrued liabilities	1,547,140	1,547,140	1,651,084	1,651,084
Distributions payable	250,000	250,000	-	-
Long-term debt	48,246,487	48,246,487	49,170,765	49,170,765

#### Financial risk management

The Board of the REIT has the overall responsibility for the establishment and oversight of the REIT's risk management framework. The REIT's risk management policies are established to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the REIT's activities. The actions taken to manage risks are unchanged since June 26, 2015, the date of commencement of operations.

In the normal course of business, the REIT is exposed to several risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

##### a. Credit risk

Credit risk is the risk of financial loss to the REIT if a tenant or counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the REIT's receivables from tenants.

The REIT's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The REIT minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process.

Accounts receivable are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write-offs. The REIT performs frequent reviews of its receivables and has determined there is no significant provision for doubtful accounts as at December 31, 2020.

The REIT places its cash and cash equivalents with financial institutions with high credit ratings. Credit ratings are actively monitored and these financial institutions are expected to meet their obligations.

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

### 13. Financial instruments (continued)

#### **a. Interest rate risk**

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The REIT is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

The REIT is exposed to interest rate risk on the long-term debt it carries against the investment properties. Based on the total outstanding long-term debt balance of \$48,246,487 (2019 - \$49,170,765), a 0.5% decrease in the weighted average interest rate, keeping all other variables constant, would result in an annual increase in net income of \$241,232 (2019 - \$245,854) as a result of lower interest payable on the various loans. A 0.5% increase in the interest rate would have an equal but opposite effect on the net income of the REIT.

#### **b. Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The REIT is exposed to foreign currency risk since the US LP, Holdings LP and the Cobblestone LP are United States Partnerships which were formed in Arizona. The carrying value of the assets and liabilities, as well as the net income and other comprehensive income, are subject to foreign exchange fluctuation. Management's objective in mitigating this risk is to preserve the REIT's capital invested in the United States and to minimize the impact of adverse changes to future cash flows from the income-producing property from depreciation in the U.S. dollar relative to the Canadian dollar.

The REIT also manages its foreign currency risk by hedging its exposure to fluctuations on the translation into U.S. dollars by borrowing debt in U.S. dollars.

As at December 31, 2020, the REIT's U.S. dollar denominated net assets are \$24,222,972 (2019 - \$23,455,567) therefore a 1% change in the value of the U.S. dollar will result in a gain or loss through other comprehensive income of approximately \$242,230 (2019 - \$234,556).

#### **c. Liquidity risk**

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. Real estate property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT was required to liquidate a real estate property investment, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

The REIT's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due.

The following are the contractual maturities of financial liabilities as at December 31, 2020.

	Amortized cost	Due in 1 year	Over 1 year
Trade payable and accrued liabilities	1,547,140	1,547,140	-
Distributions payable	250,000	250,000	
Long-term debt	48,246,487	723,185	47,523,302
	50,043,627	2,520,325	47,523,302

# AP Capital REIT

## Notes to the Consolidated Financial Statements

Expressed in Canadian Dollars  
For the year ended December 31, 2020

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### 13. Financial instruments (continued)

#### d. Environmental risk

The REIT is subject to various federal, provincial/state and municipal laws relating to the environment. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in investment properties, or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware of any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, the properties. The REIT has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the REIT may become subject to more stringent environmental laws and regulations that could have an adverse effect on the financial condition or results of operations.

#### e. Redemption risk

The total amount payable by the REIT by cash payment in respect of the redemption of units in any fiscal year or the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding units. The Trustee may, in its sole discretion, redeem by cash payment such excess units, if in the opinion of the Trustee, doing so will not adversely affect the REIT.

### 14. Related party transactions

The REIT's related parties consist of its subsidiaries and key members of management. The related party transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by the related parties.

#### Transactions with AP Capital REIT Services Ltd. (the "Manager")

The Manager is related to the REIT by virtue of having officers and directors in common with the REIT.

In connection with the services provided by the Manager under the Management Fee Agreements with the CDN LP and AP Capital REIT (CDN/US) Limited Partnership, the following amounts will be payable to the Manager:

- a. An acquisition fee equal to 0.75% of the gross purchase price of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the purchase of each such property (or interest in a property).

For the year ended December 31, 2020, the costs of these services amounted to \$nil (2019 - \$nil).

- b. A disposal fee equal to 0.45% of the gross proceeds from the sale of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the sale of each property (or interest in a property) provided that the disposal fee payable on the sale of any proportionate interest in a property will be proportionate to such interest in the property.

For the year ended December 31, 2020, the costs of these services amounted to \$nil (2019 - \$nil).

- c. An asset management fee equal to 1.5% (2019 - 1.5%) of the Net Asset Value, payable monthly on the last day of each month during the Term in an amount equal to 0.125% of the Net Asset Value as at the beginning of each month, plus an amount equal to the amount of any portion of the asset management fees waived for a previous year or years of the Term of the agreement, payable within 30 days of the presentation by Manager of an invoice therefore.

For the year ended December 31, 2020, the Manager received asset management fees of \$236,194 (2019 - \$237,499).

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

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### 14. Related party transactions (continued)

- d. A property management fee is also paid to the Manager on a monthly basis and equal to various amounts as determined by the Manager for each property. The property management fee is equal to \$5,000 per month for the Morrison property, 4% of net rental income for the Greenway property and 3% of net rental income for the Cobblestone property.

For the year ended December 31, 2020, the REIT paid property management fees of \$239,098 (2019 - \$226,198).

- e. As at December 31, 2020, the amount payable to the Manager of \$726,643 (2019 - \$398,610) was included in trade payable and accrued liabilities.

#### **Transactions with Tandem Assets 1 Limited Partnership (“Tandem”)**

Tandem is related to the REIT by virtue of having officers and directors in common with the REIT.

During a prior year ended December 31, 2016, the loan payable to Tandem of \$1,074,160 (USD \$800,000) was converted to 8,000 Class A units of the US LP. The conversion has given rise to Tandem having a 11.94% interest in the US LP (Note 7).

#### **Transactions with 1576697 Alberta Ltd.**

1576697 Alberta Ltd. is related to the REIT by virtue of having directors and officers in common with the REIT. On June 30, 2015, the REIT acquired the Morrison property, through AP Capital REIT Limited Partnership, from 1576697 Alberta Ltd. (Note 4). The acquisition was partly funded by issuance of 6,280.958 Class G units, with a total value of \$6,280,958, in 2015.

As at December 31, 2020, \$151,593 (2019 - \$151,593) was included in trade payable and accrued liabilities.

#### **Transactions with AP Capital Mortgage Investment Corporation**

AP Capital Mortgage Investment Corporation is related to the REIT by virtue of having directors and officers in common with the REIT.

As at December 31, 2020, AP Capital Mortgage Investment Corporation held 185.5644 Class G Units (2019 - 185.5644 units). During the year no units were redeemed for cash (2019 – nil) and no Class G units (2019 – 3.6534) were received as part of the DRIP.

#### **Transactions with AP Capital MIC Management Corporation**

AP Capital MIC Management Corporation is related to the REIT by virtue of having directors and officers in common with the REIT.

During the year, AP Capital MIC Management Corporation paid for certain operating expenses on behalf of the REIT totaling \$888 (2019 - \$3,279). As at December 31, 2020, \$45 (2019 - \$1,326) was included in trade payable and accrued liabilities.



# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

### 15. Segmented disclosure

The REIT's segments include two classifications of investment properties – Commercial Mixed Use and Retail, which are located in two geographical segments, Canada and USA, respectively. The accounting policies followed by each segment are the same as those disclosed in Note 3. Operating performance is evaluated by the REIT's management primarily based on net operating income, which is defined as property revenue less property operating expenses, certain advertising and promotion, bank charges and office expenses.

Year ended December 31, 2020	Commercial mixed use - Canada	Retail - USA
Property revenue	1,404,019	5,669,071
Property operating expenses	(494,501)	(1,563,918)
<b>Net operating income</b>	<b>909,518</b>	<b>4,105,153</b>

As at December 31, 2020	Commercial mixed use - Canada	Retail - USA
Cash and cash equivalents, trade and other receivables and prepaid expenses	374,089	2,831,179
Restricted funds held in trust	-	678,367
Deferred lease inducement	-	270,103
Investment properties	13,300,001	55,511,520
<b>Segmented assets</b>	<b>13,674,090</b>	<b>59,291,169</b>

Trade payable and accrued liabilities, and tenant deposits	547,949	928,251
Long-term debt	14,106,541	34,139,946
<b>Segmented liabilities</b>	<b>14,654,490</b>	<b>35,068,197</b>

Year ended December 31, 2019	Commercial mixed use - Canada	Retail – USA
Property revenue	1,697,696	5,578,394
Property operating expenses	(530,705)	(1,964,134)
<b>Net operating income</b>	<b>1,167,264</b>	<b>3,614,260</b>

As at December 31, 2019	Commercial mixed use - Canada	Retail – USA
Cash and cash equivalents, trade and other receivable and prepaid expenses	222,681	2,720,780
Restricted funds held in trust	-	391,948
Deferred lease inducement	-	233,420
Investment properties	14,350,001	56,108,160
<b>Segmented assets</b>	<b>14,572,682</b>	<b>59,454,308</b>
Trade payable and accrued liabilities, loans payable and tenant deposits	493,568	1,137,847
Long-term debt	14,309,871	34,860,895
<b>Segmented liabilities</b>	<b>14,803,439</b>	<b>35,998,742</b>

# AP Capital REIT

## Notes to the Consolidated Financial Statements

*Expressed in Canadian Dollars*  
*For the year ended December 31, 2020*

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### 16. Key management personnel compensation

The compensation of the senior management of the REIT is paid through the asset management fees and property management fees paid to the Manager (Note 14).

### 17. Government assistance

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Commercial Rent Assistance (CECRA) Program in April 2020. The CECRA Program offers unsecured, forgivable loans to eligible commercial property owners which will cover 50 percent of three monthly rent payments payable by eligible small business tenants experiencing financial hardship during April, May and June 2020. The CECRA loans, which are interest-free, will be forgiven on December 31, 2020 if the property owners agree to reduce the small business tenants' rents by at least 75 percent. The small business tenants would cover the remainder, up to 25 percent of the rent.

During the year, the CDN LP applied for and received a CECRA loan in the amount of \$81,301, which it determined that it has met the loan qualification criteria. It has recognized the loan as a government assistance and included it in rental revenue.

### 18. Comparative figures

Management has reclassified certain comparative information on the basis that these costs are related to property operations which are more clearly identified and are better reflective of operating income. Reclassified from general and administrative costs were leasing commissions of \$285,374, insurance of \$93,202, and pest control of \$16,863 which was added to recoverable general and administrative costs. Reclassified from recoverable general and administrative costs were security of \$100,837.