Morguard

Real Estate Potential. Realized.

MORGUARD NORTH AMERICAN RESIDENTIAL REAL ESTATE INVESTMENT TRUST

SEPTEMBER 30, 2021

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	September 30, 2021	December 31, 2020
ASSETS			
Non-current assets			
Real estate properties	3	**$3,120,003**	$2,941,241
Equity-accounted investments	4	**95,715**	93,005
		3,215,718	3,034,246
Current assets			
Amounts receivable		**4,992**	5,649
Prepaid expenses		**10,315**	7,809
Restricted cash		**10,864**	9,350
Cash		**20,526**	27,304
		46,697	50,112
		$3,262,415	$3,084,358
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable and Class C LP Units	5	**$1,072,302**	$1,102,235
Convertible debentures	6	**85,858**	85,165
Class B LP Units	7	**294,343**	274,708
Deferred income tax liabilities		**146,984**	109,659
Accounts payable and accrued liabilities	9	**9,110**	9,103
		1,608,597	1,580,870
Current liabilities			
Mortgages payable and Class C LP Units	5	**120,463**	107,190
Morguard Facility	8	**15,445**	6,600
Accounts payable and accrued liabilities	9	**54,433**	42,079
		190,341	155,869
Total liabilities		**1,798,938**	1,736,739
EQUITY			
Unitholders' equity		**1,382,038**	1,270,129
Non-controlling interest		**81,439**	77,490
Total equity		**1,463,477**	1,347,619
		$3,262,415	$3,084,358

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF INCOME

In thousands of Canadian dollars

		Three months ended September 30		Nine months ended September 30	
	Note	2021	2020	2021	2020
Revenue from real estate properties	11	**$61,955**	$62,159	**$182,091**	$187,658
Property operating expenses					
Property operating costs		**(16,773)**	(16,358)	**(48,046)**	(47,369)
Realty taxes		**(3,665)**	(2,617)	**(30,814)**	(29,864)
Utilities		**(4,375)**	(4,388)	**(13,532)**	(13,084)
Net operating income		**37,142**	38,796	**89,699**	97,341
Other expenses (income)					
Interest expense	12	**15,296**	15,794	**45,957**	45,562
Trust expenses	13	**3,614**	3,628	**10,552**	11,659
Equity loss (income) from investments	4	**(330)**	4,109	**(1,817)**	2,546
Foreign exchange loss (gain)		**(28)**	446	**10**	(517)
Other expense (income)		**58**	460	**125**	(632)
Income before fair value changes and income taxes		**18,532**	14,359	**34,872**	38,723
Fair value gain on real estate properties, net	3	**96,310**	41,141	**155,767**	74,228
Fair value gain (loss) on Class B LP Units	7	**(4,995)**	1,550	**(19,635)**	68,720
Income before income taxes		**109,847**	57,050	**171,004**	181,671
Provision for income taxes					
Current		**31**	30	**94**	98
Deferred		**23,162**	3,548	**36,592**	11,677
		23,193	3,578	**36,686**	11,775
Net income for the period		**$86,654**	$53,472	**$134,318**	$169,896
Net income attributable to:					
Unitholders		**$83,704**	$51,908	**$129,478**	$167,979
Non-controlling interest		**2,950**	1,564	**4,840**	1,917
		$86,654	$53,472	**$134,318**	$169,896

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Net income for the period	**$86,654**	$53,472	**$134,318**	$169,896
OTHER COMPREHENSIVE INCOME				
Item that may be reclassified subsequently to net income (loss):				
Unrealized foreign currency translation gain (loss)	**21,435**	(17,807)	**2,475**	20,717
Total comprehensive income for the period	**$108,089**	$35,665	**$136,793**	$190,613
Total comprehensive income (loss) attributable to:				
Unitholders	**$103,126**	$35,965	**$131,841**	$186,318
Non-controlling interest	**4,963**	(300)	**4,952**	4,295
	$108,089	$35,665	**$136,793**	$190,613

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Units	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Unitholders' Equity	Non-controlling Interest	Total Equity
Unitholders' equity, December 31, 2019		$468,585	$48,762	$534,893	$84,123	$1,136,363	$89,430	$1,225,793
Changes during the period:								
Net income		—	—	167,979	—	167,979	1,917	169,896
Other comprehensive income		—	—	—	18,339	18,339	2,378	20,717
Issue of Units - DRIP		467	—	(467)	—	—	—	—
Distributions		—	—	(19,994)	—	(19,994)	(1,803)	(21,797)
Unitholders' equity, September 30, 2020		$469,052	$48,762	$682,411	$102,462	$1,302,687	$91,922	$1,394,609
Changes during the period:								
Net income (loss)		—	—	7,237	—	7,237	(10,328)	(3,091)
Other comprehensive loss		—	—	—	(33,129)	(33,129)	(3,698)	(36,827)
Issue of Units - DRIP		158	—	(158)	—	—	—	—
Distributions		—	—	(6,666)	—	(6,666)	(406)	(7,072)
Unitholders' equity, December 31, 2020		$469,210	$48,762	$682,824	$69,333	$1,270,129	$77,490	$1,347,619
Changes during the period:								
Net income		**—**	**—**	**129,478**	**—**	**129,478**	**4,840**	**134,318**
Other comprehensive income		**—**	**—**	**—**	**2,363**	**2,363**	**112**	**2,475**
Issue of Units - DRIP	10(d)	**551**	**—**	**(551)**	**—**	**—**	**—**	**—**
Distributions	10(d)	**—**	**—**	**(19,932)**	**—**	**(19,932)**	**(1,003)**	**(20,935)**
Unitholders' equity, September 30, 2021		**$469,761**	**$48,762**	**$791,819**	**$71,696**	**$1,382,038**	**$81,439**	**$1,463,477**

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

	Note	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
OPERATING ACTIVITIES					
Net income		**$86,654**	$53,472	**$134,318**	$169,896
Add (deduct) items not affecting cash	16(a)	**(72,108)**	(39,641)	**(91,159)**	(121,995)
Additions to tenant incentives		**(539)**	(200)	**(1,311)**	(459)
Distributions from equity-accounted investments	4	**—**	—	**125**	—
Net change in non-cash operating assets and liabilities	16(b)	**(2,681)**	(1,950)	**4,277**	(6,490)
Cash provided by operating activities		**11,326**	11,681	**46,250**	40,952
INVESTING ACTIVITIES					
Additions to income producing properties	3	**(7,354)**	(4,887)	**(19,282)**	(15,430)
Additions to property under development		**—**	(1,875)	**—**	(5,183)
Contributions to equity-accounted investments	4	**(633)**	—	**(877)**	—
Cash used in investing activities		**(7,987)**	(6,762)	**(20,159)**	(20,613)
FINANCING ACTIVITIES					
Proceeds from new mortgages		**—**	—	**—**	25,151
Financing cost on new mortgages		**—**	—	**—**	(605)
Repayment of mortgages and Class C LP Units					
Principal instalment repayments		**(6,884)**	(6,086)	**(19,378)**	(18,249)
Repayment on maturity		**—**	—	**—**	(8,757)
Proceeds from Morguard Facility		**13,000**	10,700	**51,238**	32,900
Repayment of Morguard Facility		**—**	—	**(42,290)**	(12,000)
Distributions to Unitholders		**(6,629)**	(6,659)	**(19,930)**	(19,994)
Distributions to non-controlling interest		**(216)**	(417)	**(1,003)**	(1,803)
Decrease (increase) in restricted cash		**(326)**	912	**(1,508)**	164
Cash used in financing activities		**(1,055)**	(1,550)	**(32,871)**	(3,193)
Net increase (decrease) in cash during the period		**2,284**	3,369	**(6,780)**	17,146
Net effect of foreign currency translation on cash balance		**172**	(98)	**2**	(279)
Cash, beginning of period		**18,070**	31,344	**27,304**	17,748
Cash, end of period		**$20,526**	$34,615	**$20,526**	$34,615

See accompanying notes to the condensed consolidated financial statements.

NOTES

For the three and nine months ended September 30, 2021 and 2020
In thousands of Canadian dollars, except Unit and per Unit amounts and where otherwise noted

NOTE 1

NATURE AND FORMATION OF TRUST

Morguard North American Residential Real Estate Investment Trust (the “REIT”) is an unincorporated open-ended real estate investment trust established pursuant to a Declaration of Trust dated March 1, 2012, and as most recently amended and restated on February 16, 2021 (the “Declaration of Trust”), under and governed by the laws of the Province of Ontario. The trust units of the REIT (“Units”) trade on the Toronto Stock Exchange (“TSX”) under the symbol “MRG.UN.” The REIT invests in multi-suite residential rental properties in Canada and the United States. The REIT’s head office is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3.

The REIT holds its investments in its real estate properties through its ownership in Morguard NAR Canada Limited Partnership (the “Partnership”). As at September 30, 2021, Morguard Corporation (“Morguard”), the parent company of the REIT, holds an indirect 44.7% (December 31, 2020 - 44.7%) interest through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and thus do not contain all the disclosures applicable to the annual audited consolidated financial statements.

The condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on October 26, 2021.

These condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements and should be read in conjunction with the most recent annual audited consolidated financial statements which include the significant accounting policies most affected by estimates and judgments

At this time, the duration and impact of the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19” is unknown, as is the effectiveness of the government and central bank interventions. Any estimate of the length and severity of these measures are therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the REIT’s operations, financial results and condition in future periods are also subject to significant uncertainty. Management believes it is currently not possible to estimate the long-term impacts the outbreak of COVID-19 will have in determining estimates of fair market value for the REIT’s income producing properties, investments in joint arrangements and the valuation of financial instruments. In a long-term scenario, the significant assumptions used in the assessment of fair value and impairment, including estimates of capitalization rates and stabilized net operating income could potentially be impacted, which ultimately impact the underlying valuation of the REIT’s real estate properties and equity-accounted investments.

Foreign Exchange

The foreign exchange rates for the current and prior reporting periods are as follows:

	2021	2020
Canadian dollar to United States dollar exchange rates:		
- As at September 30	**$0.7849**	$0.7497
- As at December 31	**—**	0.7854
- Average for the three months ended September 30	**0.7937**	0.7507
- Average for the nine months ended September 30	**0.7992**	0.7385
United States dollar to Canadian dollar exchange rates:		
- As at September 30	**1.2741**	1.3339
- As at December 31	**—**	1.2732
- Average for the three months ended September 30	**1.2600**	1.3321
- Average for the nine months ended September 30	**1.2513**	1.3541

NOTE 3

REAL ESTATE PROPERTIES

Reconciliations of the carrying amounts for real estate properties at the beginning and end of the current period and prior financial year are set out below:

As at	September 30, 2021	December 31, 2020
Balance, beginning of period	**$2,941,241**	$2,872,658
Additions:		
Capital expenditures	**19,282**	22,113
Development expenditures	**—**	5,951
Fair value gain, net	**155,767**	72,238
Foreign currency translation	**3,269**	(31,538)
Other	**444**	(181)
Balance, end of period	**$3,120,003**	$2,941,241

On October 31, 2020, the REIT substantially completed the development of 1643 Josephine Street, New Orleans, Louisiana, and the development project was transferred from property under development to income producing properties, and all revenue and expenses pertaining to the property were recorded in the consolidated statements of income commencing October 31, 2020.

As at September 30, 2021, and December 31, 2020, the REIT had its portfolio appraised by Morguard's appraisal division. In addition, the REIT's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

Due to the COVID-19 pandemic and the ongoing impact on the economy, there is added risk in management's use of judgment relating to the valuation of the REIT's income producing properties. As a result, key assumptions used in determining the valuation of income producing properties include estimates of capitalization rates and stabilized net operating income (which is primarily influenced by revenue growth, vacancy rates, inflation rates and operating costs), pertain to forward-looking assumptions and market evidence, and accordingly could materially and adversely impact the underlying valuation of the REIT's income producing properties.

The REIT utilizes the direct capitalization income method to appraise its portfolio. This method requires that rental income from current leases and key assumptions about rental income, vacancies and inflation rates among other factors are used to determine a one-year stabilized net operating income forecast for each individual property within the REIT's portfolio and also considers any capital expenditures anticipated within the year. A capitalization rate was also determined for each property based on market information related to the external sale of similar properties within a similar location. These factors were used to determine the fair value of income producing properties at each reporting period.

As at September 30, 2021, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 3.8% to 6.8% (December 31, 2020 - 3.8% to 6.8%), resulting in an overall weighted average capitalization rate of 4.5% (December 31, 2020 - 4.5%).

The average capitalization rates by location are set out in the following table:

	September 30, 2021 Capitalization Rates			December 31, 2020 Capitalization Rates		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
Canada						
Alberta	**5.0%**	**5.0%**	**5.0%**	5.0%	5.0%	5.0%
Ontario	**4.5%**	**3.8%**	**3.9%**	4.5%	3.8%	3.9%
United States						
Colorado	**5.0%**	**5.0%**	**5.0%**	5.3%	5.3%	5.3%
Texas	**5.3%**	**5.0%**	**5.0%**	5.3%	5.0%	5.0%
Louisiana	**6.8%**	**5.5%**	**6.0%**	6.8%	5.5%	6.0%
Illinois	**4.5%**	**4.5%**	**4.5%**	4.5%	4.5%	4.5%
Georgia	**5.5%**	**5.0%**	**5.4%**	5.5%	5.0%	5.4%
Florida	**6.5%**	**4.8%**	**5.5%**	6.5%	4.8%	5.5%
North Carolina	**5.3%**	**5.0%**	**5.1%**	5.3%	5.0%	5.1%
Virginia	**4.8%**	**4.8%**	**4.8%**	4.8%	4.8%	4.8%

Fair values are most sensitive to changes in capitalization rates and stabilized net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the real estate properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points (assuming no change to stabilized net operating income), the value of the real estate properties as at September 30, 2021 would decrease by $163,046 or increase by $182,502, respectively.

NOTE 4

EQUITY-ACCOUNTED INVESTMENTS

The following are the REIT's equity-accounted investments as at September 30, 2021, and December 31, 2020:

Property	Principal Place of Business	Type	REIT's Ownership September 30, 2021	REIT's Ownership December 31, 2020	Carrying Value September 30, 2021	Carrying Value December 31, 2020
The Fenestra	Rockville, MD	Joint Venture	**50%**	50%	**$41,538**	$40,671
Marquee at Block 37	Chicago, IL	Joint Venture	**50%**	50%	**54,177**	52,334
					$95,715	$93,005

The following table presents the change in the balance of the equity-accounted investments:

As at	September 30, 2021	December 31, 2020
Balance, beginning of period	**$93,005**	$106,521
Additions	**877**	—
Distributions received	**(125)**	(1,780)
Share of net income (loss)	**1,817**	(9,869)
Foreign exchange gain (loss)	**141**	(1,867)
Balance, end of period	**$95,715**	$93,005

The following tables present the financial results of the REIT's equity-accounted investments on a 100% basis:

As at	September 30, 2021	December 31, 2020
Non-current assets	**$489,014**	$483,817
Current assets	**6,786**	8,525
Total assets	**$495,800**	$492,342
Non-current liabilities	**$288,704**	$294,098
Current liabilities	**15,666**	12,234
Total liabilities	**$304,370**	$306,332
Net assets	**$191,430**	$186,010
Equity-accounted investments	**$95,715**	$93,005

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Revenue	**$9,071**	$9,586	**$25,241**	$30,659
Expenses	**(6,788)**	(6,181)	**(24,937)**	(25,025)
Fair value gain (loss) on income producing properties	**(1,623)**	(11,622)	**3,330**	(10,726)
Net income (loss) for the period	**$660**	($8,217)	**$3,634**	($5,092)
Income (loss) in equity-accounted investments	**$330**	($4,109)	**$1,817**	($2,546)

NOTE 5
MORTGAGES PAYABLE AND CLASS C LP UNITS

Mortgages payable and Class C LP Units consist of the following:

As at	September 30, 2021			December 31, 2020
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,119,497**	**$72,362**	**$1,191,859**	$1,210,463
Deferred financing costs	**(8,242)**	**—**	**(8,242)**	(10,080)
Present value of tax payment on Class C LP Units	**—**	**9,148**	**9,148**	9,042
	$1,111,255	**$81,510**	**$1,192,765**	$1,209,425
Current	**$38,953**	**$81,510**	**$120,463**	$107,190
Non-current	**1,072,302**	**—**	**1,072,302**	1,102,235
	$1,111,255	**$81,510**	**$1,192,765**	$1,209,425
Range of interest rates	**2.03–4.11%**	**3.97%**	**2.03–4.11%**	2.03–4.11%
Weighted average interest rate	**3.42%**	**3.97%**	**3.45%**	3.45%
Weighted average term to maturity (years)	**4.4**	**0.1**	**4.1**	4.8
Fair value of mortgages and Class C LP Units	**$1,165,362**	**$73,028**	**$1,238,390**	$1,292,168

Morguard retained the mortgages on four properties that were sold to the REIT (the "Retained Debt") and also retained the deferred financing costs associated with the Retained Debt. Morguard remains responsible for the interest and principal payments on the Retained Debt, and the Retained Debt is secured by a charge on the properties. In consideration of the Retained Debt, Morguard received Class C LP Units of the Partnership on which distribution payments are made in an amount expected to be sufficient to permit Morguard to satisfy the amount payable with respect to: (i) principal and interest under the Retained Debt; and (ii) the amount of tax that is due and payable that is reasonably attributable to any distributions on the Class C LP Units.

The REIT's first mortgages are registered against specific real estate assets, and the Retained Debt is secured by charges on the four properties. The REIT provided Morguard's creditors with a guarantee with respect to the Retained Debt to ensure the lenders are not prejudiced in their ability to collect from Morguard in the event that payments on the Class C LP Units are not made as expected. Morguard has also provided an indemnity to the

REIT for any losses suffered by the REIT in the event payments on the Retained Debt are not made as required provided such losses are not attributable to any action or failure to act on the part of the REIT.

The aggregate principal repayments and balances maturing of the mortgages payable and the Class C LP Units as at September 30, 2021, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Rate
2021 (remainder of the year)	$6,895	$74,485	$81,380	3.97%
2022	27,162	67,270	94,432	3.76%
2023	24,395	145,644	170,039	3.47%
2024	21,515	140,446	161,961	3.28%
2025	14,072	174,254	188,326	3.25%
Thereafter	23,791	471,930	495,721	3.45%
	$117,830	$1,074,029	$1,191,859	3.45%

Substantially all of the REIT's rental properties and related rental revenue have been pledged as collateral for the mortgages payable.

NOTE 6
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	September 30, 2021	December 31, 2020
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**1,752**	1,577
Unamortized financing costs	**(1,117)**	(1,635)
	$85,858	$85,165

For the three and nine months ended September 30, 2021, interest on the convertible debentures amounting to $976 (2020 - $965) and $2,878 (2020 - $2,878), respectively, is included in interest expense (Note 12). As at September 30, 2021, $11 (December 31, 2020 - $980) is included in accounts payable and accrued liabilities.

4.50% Convertible Unsecured Subordinated Debentures

On February 13, 2018, the REIT issued $75,000 principal amount of 4.50% convertible unsecured subordinated debentures (the "2018 Debentures") maturing on March 31, 2023 (the "Maturity Date"). On February 21, 2018, an additional principal amount of $10,500 was issued pursuant to the exercise of the over-allotment option. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year. The underwriters' commissions, legal and other issue costs attributable to the 2018 Debentures in the amount of $3,375 have been capitalized and are being amortized over their term to maturity. Morguard owns $5,000 aggregate principal amount of the 2018 Debentures.

As at September 30, 2021, and December 31, 2020, $85,500 of the face value of the 2018 Debentures were outstanding.

Each of the 2018 Debentures can be converted into fully paid, non-assessable and freely tradable Units at the option of the holder at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the REIT for redemption of the 2018 Debentures, at a conversion price of $20.20 per Unit, being a ratio of approximately 49.5050 Units per $1,000 principal amount of 2018 Debentures.

From April 1, 2021 to March 31, 2022, the 2018 Debentures will be redeemable, in whole at any time or in part from time to time, at the option of the REIT on not more than 60 days' and not less than 30 days' prior written notice at a redemption price equal to the principal amount thereof plus accrued and unpaid interest up to the date fixed for redemption, provided that the volume-weighted average trading price of the Units on the TSX (if the Units are then listed on the TSX) for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given (the “Current Market Price”) is not less than 125% of the conversion price. From April 1, 2022, and prior to the Maturity Date, the 2018 Debentures shall be redeemable, in whole at any time or in part from time to time, at the option of the REIT on not more than 60 days’ and not less than 30 days’ prior written notice at a redemption price equal to the principal amount thereof plus accrued and unpaid interest up to the date fixed for redemption. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the 2018 Debentures that are to be redeemed or that have matured by issuing and delivering that number of freely tradable Units to the debentureholders obtained by dividing the principal amount of the 2018 Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity, as applicable.

NOTE 7

CLASS B LP UNITS

On April 18, 2012, the REIT issued 17,223,090 Class B LP Units to Morguard for $172,231. The Class B LP Units are non-transferable, except under certain circumstances, but are exchangeable on a one-for-one basis into Units of the REIT at any time at the option of the holder. Prior to such exchange, distributions are made on the Class B LP Units in an amount equivalent to the distribution that would have been made had the Units of the REIT been issued. Each Class B LP Unit was accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of the Unitholders. There is no value assigned to the Special Voting Units.

As at September 30, 2021, the REIT valued the Class B LP Units based on the closing price of the TSX-listed Units, which resulted in a fair value liability of $294,343 (December 31, 2020 - $274,708) and a corresponding fair value loss for the three and nine months ended September 30, 2021 of $4,995 (2020 - gain of $1,550) and $19,635 (2020 - gain of $68,720), respectively.

For the three and nine months ended September 30, 2021, distributions on Class B LP Units amounting to $3,012 (2020 - $3,012) and $9,037 (2020 - $9,037), respectively, are included in interest expense (Note 12).

As at September 30, 2021, and December 31, 2020, there were 17,223,090 Class B LP Units issued and outstanding.

NOTE 8

MORGUARD FACILITY

The REIT has an unsecured revolving credit facility with Morguard (the “Morguard Facility”) that provides for borrowings or advances that can be drawn or advanced either in Canadian dollars or an equivalent amount in United States dollars subject to the availability of sufficient funds. If in Canadian dollars, interest will be calculated either at the Canadian prime lending rate or at the bankers’ acceptance rate plus 1.8%. If the borrowing or advance is in United States dollars, interest will be calculated either at the United States prime lending rate or at the United States dollar London Interbank Offered Rate (LIBOR) plus 1.7%. The maximum allowable to be borrowed or advanced under the Morguard Facility is $100,000.

As at September 30, 2021, the total amount payable under the Morguard Facility was $15,445, comprising amounts payable of $7,800 and US$6,000. As at December 31, 2020, the amount payable under the Morguard Facility was $6,600.

During the three and nine months ended September 30, 2021, the REIT incurred net interest expense of $59 (2020 - net interest income of $73) and $152 (2020 - net interest income of $254), respectively, on the Morguard Facility.

NOTE 9
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	September 30, 2021	December 31, 2020
Accounts payable and accrued liabilities	**$43,009**	$30,936
Tenant deposits	**11,424**	11,143
Lease liability	**9,110**	9,103
	$63,543	$51,182
Current	**$54,433**	$42,079
Non-current	**9,110**	9,103
	$63,543	$51,182

Future minimum lease payments under the lease liability are as follows:

As at	September 30, 2021	December 31, 2020
Within 12 months	**$436**	$435
2 to 5 years	**1,881**	1,826
Over 5 years	**10,623**	10,994
Total minimum lease payments	**12,940**	13,255
Less: Future interest costs	**(3,830)**	(4,152)
Present value of minimum lease payments	**$9,110**	$9,103

NOTE 10
UNITHOLDERS' EQUITY

(a) Units

The REIT is authorized to issue an unlimited number of Units. Each Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in the distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The Unitholders have the right to require the REIT to redeem their Units on demand subject to certain conditions. The Units have no par value. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption will cease and the holder thereof will be entitled to receive a price per Unit ("Redemption Price") as determined by a formula outlined in the Declaration of Trust. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

The Trustees have discretion with respect to the timing and amounts of distributions.

(b) Normal Course Issuer Bids

The REIT had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 2,953,852 Units and $8,050 principal amount of the Debentures. The program expired on December 20, 2020. On January 5, 2021, the REIT obtained the approval of the TSX under its NCIB to purchase up to 2,955,913 Units, being approximately 10% of the public float of outstanding Units; the program expires on January 7, 2022. The daily repurchase restriction for the Units is 13,807. Additionally, the REIT may purchase up to $8,048 principal amount of the 2018 Debentures, being 10% of the public float of outstanding 2018 Debentures. The daily repurchase restriction for the 2018 Debentures is $8. The price that the REIT would pay for any such Units or 2018 Debentures would be the market price at the time of acquisition.

There were no repurchases of Units under the REIT's NCIB plan for the nine months ended September 30, 2021 and 2020.

(c) Special Voting Units

The REIT is authorized to issue an unlimited number of Special Voting Units. The Declaration of Trust and the exchange agreement provide for the issuance of the Special Voting Units, which have no economic entitlement in the REIT or in the distribution or assets of the REIT, but are used to provide voting rights proportionate to the votes of the Units to holders of securities exchangeable into Units, including the Class B LP Units. Each Special Voting Unit is not transferable separately from the Class B LP Unit to which it is attached and will be automatically redeemed and cancelled upon exchange of the attached Class B LP Unit into a Unit.

(d) Units Outstanding

The following table summarizes the changes in Units for the period from December 31, 2019, to September 30, 2021:

Issued and Fully Paid Units	Units	Amount
Balance, December 31, 2019	38,979,702	$468,585
Units issued under the DRIP	40,125	625
Balance, December 31, 2020	39,019,827	469,210
Units issued under the DRIP	**33,380**	**551**
Balance, September 30, 2021	**39,053,207**	**$469,761**

Total distributions declared during the nine months ended September 30, 2021, amounted to $20,483, or $0.5247 per Unit (2020 - $20,461, or $0.5247 per Unit), including distributions payable of $2,277 that were declared on September 15, 2021, and paid on October 15, 2021. On October 15, 2021, the REIT declared a distribution of $0.0583 per Unit payable on November 15, 2021.

(e) Distribution Reinvestment Plan

Under the REIT's Distribution Reinvestment Plan ("DRIP"), Unitholders can elect to reinvest cash distributions into additional Units at a weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution. During the nine months ended September 30, 2021, the REIT issued 33,380 Units under the DRIP (year ended December 31, 2020 - 40,125 Units).

NOTE 11

RENTAL INCOME

The components of revenue from real estate properties are as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Rental income	**$28,698**	$29,206	**$85,431**	$90,814
Property management and ancillary income	**23,132**	23,290	**67,649**	68,346
Property tax and insurance	**10,125**	9,663	**29,011**	28,498
	$61,955	$62,159	**$182,091**	$187,658

NOTE 12

INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Interest on mortgages	**$9,587**	$10,164	**$28,528**	$30,748
Interest and tax payment on Class C LP Units	**882**	923	**2,671**	2,776
Interest on the convertible debentures (Note 6)	**976**	965	**2,878**	2,878
Interest on lease liability	**108**	114	**321**	347
Amortization of deferred financing costs	**577**	642	**1,829**	1,954
Amortization of deferred financing costs on the convertible debentures	**174**	168	**518**	484
Fair value loss (gain) on conversion option on the convertible debentures	**(20)**	(194)	**175**	(2,662)
	12,284	12,782	**36,920**	36,525
Distributions on Class B LP Units (Note 7)	**3,012**	3,012	**9,037**	9,037
	$15,296	$15,794	**$45,957**	$45,562

NOTE 13
TRUST EXPENSES

The components of trust expenses are as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Asset management fees and distributions	**$2,987**	$2,922	**$8,788**	$9,712
Professional fees	**276**	287	**673**	870
Public company expenses	**191**	166	**572**	525
Other	**160**	253	**519**	552
	$3,614	$3,628	**$10,552**	$11,659

NOTE 14
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 5, 6, 7 and 8, related party transactions also include the following:

Agreements with Morguard Affiliates

The REIT, the Partnership and its subsidiaries entered into a series of agreements (the "Agreements") with certain Morguard affiliates whereby the following services are provided by Morguard's affiliates under the direction of the REIT:

Property Management

Pursuant to the Agreements, Morguard's affiliates administer the day-to-day operations of the Canadian and U.S. income producing properties, for which Morguard's affiliates receive partnership fees and distributions equal to 3.5% of gross property revenue of the income producing properties, payable monthly. Fees and distributions for the three and nine months ended September 30, 2021 amounted to $2,270 (2020 - $2,274) and $6,649 (2020 - $6,905), respectively, and are included in property operating costs and equity income (loss) from investments. As at September 30, 2021, $615 (December 31, 2020 - $619) is included in accounts payable and accrued liabilities.

Asset Management

Pursuant to the Agreements, Morguard's affiliates have certain duties and responsibilities for the strategic management and administration of the Partnership and its subsidiaries, for which they receive partnership fees and distributions equal to 0.25% of the Partnership's gross book value defined as acquisition cost of the REIT's assets plus: (i) fair value adjustments; and (ii) accumulated amortization on property, plant and equipment. In addition, an annual fee and distribution is calculated in arrears, determined by multiplying 15% of the Partnership's funds from operations in excess of $0.66 per Unit. Fees and distributions for the three and nine months ended September 30, 2021 amounted to $3,138 (2020 - $3,096) and $9,236 (2020 - $10,226), respectively, and are included in trust expenses and equity income (loss) from investments. As at September 30, 2021, $1,769 (December 31, 2020 - $1,635) is included in accounts payable and accrued liabilities.

Acquisition

Pursuant to the Agreements, Morguard's affiliates are entitled to receive partnership fees with respect to properties acquired, directly or indirectly, by the REIT from third parties, and the fees are to be paid upon the closing of the purchase of each such property. The fees range from 0% of the purchase price paid for properties acquired directly or indirectly from Morguard, including entities controlled by Morguard, up to 0.75% of the purchase price paid for properties acquired from third parties. There were no fees relating to acquisition services for the three and nine months ended September 30, 2021 and 2020.

Financing

Pursuant to the Agreements, with respect to arranging for financing services, Morguard's affiliates are entitled to receive partnership fees equal to 0.15% of the principal amount and associated costs (excluding mortgage premiums) of any debt financing or refinancing. Fees relating to financing services for the three and nine months ended September 30, 2021 amounted to $nil (2020 - $nil) and $nil (2020 - $37), respectively, and have been capitalized to deferred financing costs.

Development
Pursuant to the Agreements, Morguard's affiliates are entitled to receive partnership fees equal to 1.00% of development costs, where such costs exceed $1,000 and are incurred in connection with: (i) the construction, enlargement or reconstruction of any building, erection, plant, equipment or improvement on a property; or (ii) any refurbishing, additions, upgrading or restoration of or renovations to existing buildings, erections, plant, equipment or improvements, including redevelopments, other than repair and maintenance in the ordinary course of business. Fees relating to development services for the three and nine months ended September 30, 2021, amounted to $nil (2020 - $10) and $nil (2020 - $39), respectively, and are included in property under development. As at September 30, 2021, $nil (December 31, 2020 - $8) is included in accounts payable and accrued liabilities.

Other Services
As at September 30, 2021, the REIT had its portfolio appraised by Morguard's appraisal division. Fees relating to appraisal services for the three and nine months ended September 30, 2021 amounted to $52 (2020 - $49) and $158 (2020 - $149), respectively, and are included in trust expenses.

NOTE 15
INCOME TAXES
(a) Canadian Status
The REIT is a "mutual fund trust" pursuant to the *Income Tax Act* (Canada) (the "Act"). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow-Through ("SIFT") Trust pursuant to the Act is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to Unitholders. The REIT intends to continue to qualify as a mutual fund trust that is not a SIFT Trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

(b) U.S. Status
Certain of the REIT's operations or a portion thereof are conducted through its taxable U.S. subsidiaries, which are subject to U.S. federal and state corporate income taxes.

As at September 30, 2021, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$34,067 (December 31, 2020 - US$34,067) of which no deferred tax assets were recognized as it is not probable that taxable profit will be available against such losses of which the deductible temporary difference can be utilized. The net operating losses expire in various years commencing in 2032.

As at September 30, 2021, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$27,042 (December 31, 2020 - US$15,256) of which deferred tax assets were recognized. The net operating losses can be carried forward indefinitely.

As at September 30, 2021, the REIT's U.S. subsidiaries have a total of US$7,020 (December 31, 2020 - US$2,201) of unutilized interest expense deductions on which deferred tax assets were recognized.

NOTE 16
CONSOLIDATED STATEMENTS OF CASH FLOWS
(a) Items Not Affecting Cash

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Fair value gain on real estate properties, net	**($101,211)**	($46,739)	**($149,395)**	($68,521)
Fair value loss (gain) on Class B LP Units	**4,995**	(1,550)	**19,635**	(68,720)
Fair value loss (gain) on conversion option on the convertible debentures	**(20)**	(194)	**175**	(2,662)
Equity loss (income) from investments	**(330)**	4,109	**(1,817)**	2,546
Amortization of deferred financing - mortgages	**541**	566	**1,645**	1,729
Amortization of deferred financing - Class C LP Units	**36**	76	**184**	225
Amortization of deferred financing - convertible debentures	**174**	168	**518**	484
Present value adjustment of tax liability on Class C LP Units	**146**	144	**437**	430
Amortization of tenant incentives	**399**	231	**867**	817
Deferred income taxes	**23,162**	3,548	**36,592**	11,677
	($72,108)	($39,641)	**($91,159)**	($121,995)

(b) Net Change in Non-cash Operating Assets and Liabilities

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Amounts receivable	**($422)**	($460)	**$660**	($2,254)
Prepaid expenses	**(5,434)**	(7,027)	**(2,500)**	(6,861)
Accounts payable and accrued liabilities	**3,175**	5,537	**6,117**	2,625
	($2,681)	($1,950)	**$4,277**	($6,490)

(c) Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Interest paid	**$12,198**	$12,931	**$34,727**	$36,984

(d) Reconciliation of Liabilities Arising from Financing Activities
The following provides a reconciliation of liabilities arising from financing activities:

As at September 30, 2021	Mortgages Payable and Class C LP Units	Convertible Debentures	Morguard Facility	Lease Liability	Total
Balance, beginning of period	**$1,209,425**	**$85,165**	**$6,600**	**$9,103**	**$1,310,293**
Repayments	**(19,378)**	**—**	**(42,290)**	**—**	**(61,668)**
New financing, net	**—**	**—**	**51,238**	**—**	**51,238**
Non-cash changes	**2,266**	**693**	**—**	**—**	**2,959**
Foreign exchange	**452**	**—**	**(103)**	**7**	**356**
Balance, end of period	**$1,192,765**	**$85,858**	**$15,445**	**$9,110**	**$1,303,178**

NOTE 17
MANAGEMENT OF CAPITAL

Refer to the REIT's audited consolidated financial statements as at and for the year ended December 31, 2020 for an explanation of the REIT's capital management policy.

The total managed capital for the REIT as at September 30, 2021, and December 31, 2020, is summarized below:

As at	September 30, 2021	December 31, 2020
Mortgages payable, principal balance	**$1,119,497**	$1,135,377
Class C LP Units and present value of tax payment, principal balance	**81,510**	84,128
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**15,445**	6,600
Lease liability	**9,110**	9,103
Class B LP Units	**294,343**	274,708
Unitholders' equity	**1,382,038**	1,270,129
	$2,987,443	$2,865,545

The REIT's debt ratios compared to its borrowing limits established in the Declaration of Trust are outlined in the table below:

As at	Borrowing Limits	September 30, 2021	December 31, 2020
Total debt to gross book value	70%	**40.2%**	42.8%
Floating-rate debt to gross book value	20%	**0.5%**	0.2%

NOTE 18
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer to the REIT's audited consolidated financial statements as at and for the year ended December 31, 2020 for an explanation of the REIT's risk management policy as it relates to financial instruments.

Fair Value of Financial Assets and Liabilities

The fair values of cash, restricted cash, amounts receivable, the Morguard Facility and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments.

Mortgages payable and Class C LP Units, lease liability and the convertible debentures are carried at amortized cost using the effective interest method of amortization. The estimated fair values of long-term borrowings have been determined based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the REIT.

The fair values of the mortgages payable and Class C LP Units have been determined by discounting the cash flows of these financial obligations using September 30, 2021, market rates for debts of similar terms (Level 2). Based on these assumptions, as at September 30, 2021, the fair values of the mortgages payable and Class C LP Units before deferred financing costs and present value of tax payment are estimated at $1,165,362 and $73,028 (December 31, 2020 - $1,215,688 and $76,480), respectively. The fair values of the mortgages payable and Class C LP Units vary from their carrying values due to fluctuations in market interest rates since their issue.

The fair value of the convertible debentures are based on their market trading price (Level 1). As at September 30, 2021, the fair value of the convertible debentures before deferred financing costs has been estimated at $88,920 (December 31, 2020 - $88,339), compared with the carrying value of $85,223 (December 31, 2020 - $85,223).

The fair value of the Class B LP Units is equal to the market trading price of the Units.

The REIT's convertible debentures have no restrictive covenants.

The fair value hierarchy of real estate properties and financial instruments measured at fair value on the consolidated balance sheets is as follows:

	September 30, 2021			December 31, 2020		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$3,120,003**	$—	$—	$2,941,241
Financial liabilities:						
Class B LP Units	**294,343**	**—**	**—**	274,708	—	—
Conversion option of the convertible debentures	**—**	**1,752**	**—**	—	1,577	—

NOTE 19
SEGMENTED INFORMATION

All of the REIT's assets and liabilities are in, and their revenue is derived from, the Canadian and U.S. multi-suite residential real estate segments. The Canadian properties are located in the provinces of Alberta and Ontario, and the U.S. properties are located in the states of Colorado, Texas, Louisiana, Illinois, Georgia, Florida, North Carolina and Virginia. No single tenant accounts for 10% or more of the REIT's total revenue. The REIT is separated into two reportable segments, Canada and the United States. The REIT has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

Additional information with respect to each reportable segment is outlined below:

	Three months ended September 30, 2021			Three months ended September 30, 2020		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Revenue from income producing properties	**$23,068**	**$38,887**	**$61,955**	$23,635	$38,524	$62,159
Property operating expenses	**(10,231)**	**(14,582)**	**(24,813)**	(10,482)	(12,881)	(23,363)
Net operating income	**$12,837**	**$24,305**	**$37,142**	$13,153	$25,643	$38,796

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Revenue from real estate properties	**$69,458**	**$112,633**	**$182,091**	$71,112	$116,546	$187,658
Property operating expenses	**(30,991)**	**(61,401)**	**(92,392)**	(30,064)	(60,253)	(90,317)
Net operating income	**$38,467**	**$51,232**	**$89,699**	$41,048	$56,293	$97,341

	September 30, 2021			December 31, 2020		
As at	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Real estate properties	**$1,451,210**	**$1,668,793**	**$3,120,003**	$1,414,050	$1,527,191	$2,941,241
Mortgages payable and Class C LP Units	**$423,499**	**$769,266**	**$1,192,765**	$435,408	$774,017	$1,209,425

	Three months ended September 30, 2021			Three months ended September 30, 2020		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Additions to real estate properties	**$3,330**	**$4,024**	**$7,354**	$1,853	$4,909	$6,762
Fair value gain on real estate properties	**$14,486**	**$81,824**	**$96,310**	$36,188	$4,953	$41,141

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Additions to real estate properties	**$5,604**	**$13,678**	**$19,282**	$7,262	$13,351	$20,613
Fair value gain on real estate properties	**$31,304**	**$124,463**	**$155,767**	$55,035	$19,193	$74,228