MORGUARD NORTH AMERICAN
RESIDENTIAL REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2019

ACTIVE PORTFOLIO MANAGEMENT.
ENHANCED RETURNS.

Morguard

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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PART I

Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT" or the "REIT") is pleased to provide this review of operations and update on our financial performance for the three and nine months ended September 30, 2019. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per suite and REIT trust unit ("Unit") amounts.

The following Management's Discussion and Analysis ("MD&A") sets out the REIT's strategies and provides an analysis of the financial performance for the three and nine months ended September 30, 2019, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the REIT's unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2019 and 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB") and is dated October 29, 2019. Disclosure contained in this document is current to that date unless otherwise noted.

Additional information relating to Morguard Residential REIT, including the REIT's Annual Information Form, can be found at www.sedar.com and www.morguard.com.

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words "anticipates", "believes", "may", "continue", "estimate", "expects" and "will" and words of similar expression, constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the REIT operates; changes in business strategy or development/acquisition plans; environmental exposures; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the REIT; and other factors referred to in the REIT's filings with Canadian securities regulators. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Morguard Residential REIT does not assume the obligation to update or revise any forward-looking statements.

NON-IFRS FINANCIAL MEASURES

Morguard Residential REIT reports its financial results in accordance with IFRS. However, this MD&A also uses certain financial measures that are not defined by IFRS. These measures do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other reporting issuers in similar or different industries. These measures should be considered as supplemental in nature and not as substitutes for related financial information prepared in accordance with IFRS. The REIT's management uses these measures to aid in assessing the REIT's underlying core performance and provides these additional measures so that investors may do the same. Management believes that the non-IFRS measures described below, which supplement the IFRS measures, provide readers with a more comprehensive understanding of management's perspective on the REIT's operating results and performance.

The following discussion describes the non-IFRS measures the REIT uses in evaluating its operating results:

NET OPERATING INCOME ("NOI") AND PROPORTIONATE SHARE NOI ("PROPORTIONATE NOI")

NOI is defined by the REIT as revenue from real estate properties less property operating costs, realty taxes and utilities as presented in the consolidated statements of income (loss). NOI margin is calculated as NOI divided by revenue and is also calculated on a Proportionate NOI basis. NOI is an important measure in evaluating the operating performance of the REIT's real estate properties and is a key input in determining the fair value of the REIT's properties.

Proportionate NOI represents NOI adjusted for the following: i) to exclude the impact of realty taxes accounted for under IFRIC 21 as noted below. Proportionate NOI records realty taxes for all properties on a *pro rata* basis over the entire fiscal year; ii) to exclude the non-controlling interest share of NOI for those properties that are consolidated under IFRS; and iii) to include the REIT's equity-accounted investment NOI at its ownership interest.

NOI includes the impact of realty taxes accounted for under the International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21, *Levies* ("IFRIC 21"). IFRIC 21 states that an entity recognizes a levy liability in accordance with the relevant legislation. The obligating event for realty taxes for the U.S. municipalities in which the REIT operates is ownership of the property on January 1 of each year for which the tax is imposed and, as a result, the REIT records the entire annual realty tax expense for its U.S. properties on January 1, except for U.S. properties acquired during the year in which the realty taxes are not recorded in the year of acquisition.

NOI includes three Canadian properties and two U.S. properties whereby the REIT controls but does not own 100% interest in the subsidiary and, as a result, the REIT fully consolidates the results of operations within its condensed consolidated financial statements. The REIT's non-controlling interest in subsidiaries is adjusted from NOI in calculating Proportionate NOI.

NOI does not include interest in joint arrangements that are accounted for using the equity method of accounting. The REIT's interest in the operating performance of its one U.S. property, which is presented as equity income from investment in the consolidated statements of income (loss), is adjusted to include its share of NOI in calculating Proportionate NOI.

A reconciliation of NOI and Proportionate NOI from the IFRS financial statement presentation of revenue from real estate properties, property operating costs, realty taxes and utilities are presented under the section Part IX, "Reconciliation of Non-IFRS Measures".

SAME PROPERTY NOI / PROPORTIONATE NOI

Same Property NOI and Same Property Proportionate NOI are presented in this MD&A because management considers these non-IFRS measures to be important measures of the REIT's operating performance for properties owned by the REIT continuously for the current and comparable reporting period and does not take into account the impact of the operating performance of property acquisitions and dispositions as well as development properties until reaching stabilized occupancy.

A reconciliation of Same Property NOI and Same Property Proportionate NOI from the IFRS financial statement presentation of revenue from real estate properties, property operating costs, realty taxes and utilities are presented under the section Part IX, "Reconciliation of Non-IFRS Measures".

INDEBTEDNESS

Indebtedness (as defined in the Declaration of Trust) is a measure of the amount of debt financing utilized by the REIT. Indebtedness is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's financial position.

A reconciliation of Indebtedness from the IFRS financial statement presentation is presented under the section Part IX, "Reconciliation of Non-IFRS Measures".

GROSS BOOK VALUE

Gross book value (as defined in the Declaration of Trust) is a measure of the value of the REIT's assets. Gross book value is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's asset base and financial position.

A reconciliation of the gross book value from the IFRS financial statement presentation is presented under the section Part IX, "Reconciliation of Non-IFRS Measures".

INDEBTEDNESS TO GROSS BOOK VALUE RATIO

Indebtedness to gross book value ratio is a compliance measure in the Declaration of Trust (defined below) and establishes the limit for financial leverage of the REIT. Indebtedness to gross book value ratio is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's financial position.

INTEREST COVERAGE RATIO

Interest coverage ratio measures the amount of cash flow available to meet annual interest payments on the REIT's indebtedness. Generally, the higher the interest coverage ratio, the lower the credit risk. Interest coverage ratio is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's operating performance and financial position.

INDEBTEDNESS COVERAGE RATIO

Indebtedness coverage ratio measures the amount of cash flow available to meet annual principal and interest payments on the REIT's indebtedness. Generally, the higher the indebtedness coverage ratio, the higher the capacity for additional debt. Indebtedness coverage ratio is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's operating performance and financial position.

FUNDS FROM OPERATIONS ("FFO")

FFO is a non-IFRS measure widely used as a real estate industry standard that supplements net income and evaluates operating performance but is not indicative of funds available to meet the REIT's cash requirements. FFO can assist with comparisons of the operating performance of the REIT's real estate between periods and relative to other real estate entities. FFO is computed by the REIT in accordance with the current definition of the Real Property Association of Canada ("REALpac") and is defined as net income (loss) attributable to Unitholders adjusted for fair value adjustments, distributions on the Class B LP Units, realty taxes accounted for under IFRIC 21, deferred income taxes (on the REIT's U.S. properties), gains/losses on the sale of real estate properties (including income taxes on the sale of real estate properties) and other non-cash items. FFO payout ratio compares distributions declared to FFO. Distributions declared is calculated based on the monthly distribution per Unit multiplied by the weighted average number of Units outstanding (including Class B LP Units) during the period. The REIT considers FFO to be a useful measure for reviewing its comparative operating and financial performance.

A reconciliation of net income (loss) attributable to Unitholders (an IFRS measure) to FFO is presented under the section Part III, "Funds From Operations".

PROPORTIONATE SHARE BASIS

The REIT's balance sheet and statements of income (loss) prepared in accordance with IFRS have been adjusted (as described below) to derive the REIT's proportionately owned financial results ("Proportionate Basis"). In addition, the REIT's statements of income have been adjusted to exclude the impact of realty taxes accounted for under IFRIC 21 and to record realty taxes for all properties on a *pro rata* basis over the entire fiscal year. Management believes that the Proportionate Basis non-IFRS measures described below, which supplement the IFRS measures, provide readers with a more comprehensive understanding of management's perspective on the REIT's operating results and performance.

NON-CONTROLLING INTEREST SHARE ("NCI SHARE")

NCI Share adjusts for three Canadian properties and two U.S. properties whereby the REIT controls but does not own a 100% interest in the subsidiary and, as a result, the REIT fully consolidates their financial results within its consolidated financial statements. The adjustment removes the non-controlling interest portion that is consolidated under IFRS. The presentation of *pro rata* assets, liabilities, revenue, and expenses represents a non-IFRS measure and may not accurately depict the legal and economic implications of the REIT's interest in the joint ventures.

EQUITY-ACCOUNTED INVESTMENTS ("EQUITY INTEREST")

Equity Interest adjusts interests in joint arrangements that are accounted for using the equity method of accounting. The financial results of one U.S. property under IFRS is presented on a single line within the consolidated balance sheet and statements of income (loss) and has been adjusted on a proportionately owned basis to each respective financial statement line presented within the balance sheet and statements of income (loss). The presentation of *pro rata* assets, liabilities, revenue, and expenses represents a non-IFRS measure and may not accurately depict the legal and economic implications of the REIT's interest in the joint venture.

PART II

BUSINESS OVERVIEW AND STRATEGY

The REIT is an unincorporated open-ended real estate investment trust established pursuant to a declaration of trust dated March 1, 2012, and as amended and restated on April 18, 2012 (the “Declaration of Trust”), under and governed by the laws of the Province of Ontario. The Units of the REIT trade on the Toronto Stock Exchange (“TSX”) under the symbol “MRG.UN.”

The REIT has been formed to own multi-suite residential rental properties across Canada and the United States. The objectives of the REIT are to: i) generate stable and growing cash distributions on a tax-efficient basis; ii) enhance the value of the REIT’s assets and maximize the long-term value of the Units through active asset and property management; and iii) expand the asset base of the REIT primarily through acquisitions and improvement of its properties through targeted and strategically deployed capital expenditures.

The REIT’s internal growth strategy will focus on maximizing cash flow from its portfolio. The REIT intends to increase cash flows by maximizing occupancy and average monthly rent (“AMR”), taking into account local conditions in each of its regional markets, managing its operating expenses as a percentage of revenues and strengthening its asset base through its building infrastructure improvement and capital expenditure programs.

The REIT’s external growth strategy is focused on opportunities to acquire additional multi-suite residential properties located in urban centres and major suburban regions in Canada and the United States that satisfy the REIT’s investment criteria, as well as generating greater cash flow from acquired properties. The REIT will seek to leverage its relationship with Morguard Corporation (“Morguard”) to access acquisition opportunities that satisfy the REIT’s investment criteria. Additionally, subject to limited exceptions, the REIT has the right of first opportunity to acquire the existing interests in Morguard’s multi-suite residential properties prior to any disposition by Morguard to a third party.

SIGNIFICANT EVENTS

ISSUANCE OF UNITS

On August 28, 2019, the REIT completed an offering for 5,226,200 Units sold for a price of $19.75 per Unit for aggregate gross proceeds of $103,217 (the “Offering”). The net proceeds of the Offering, after underwriters’ commission and other closing costs totalling $3,626, was $99,591.

ACQUISITIONS / DISPOSITIONS

During the first half of 2019, the REIT sold the following five properties located in Louisiana, comprising 843 suites. The disposition of the five Louisiana properties, which were constructed between 1967 and 1984, and have an average age of 40 years, follows the sale of the REIT’s Alabama properties in July 2017 and is consistent with management’s strategy to dispose of non-core assets and to focus on opportunities to acquire properties located in urban centres and major suburban markets in Canada and the United States.

Property	Date of Disposition	Location	No. of Suites	Gross Proceeds
Villages of Williamsburg	February 1, 2019	Shreveport, LA	194	$13,510
Steeplechase	March 19, 2019	Lafayette, LA	192	15,062
Magnolia Place	March 19, 2019	New Iberia, LA	148	8,208
Garden Lane	March 27, 2019	Gretna, LA	261	22,601
Colonial Manor	April 30, 2019	Harahan, LA	48	4,428
			843	$63,809

On May 22, 2019, the REIT acquired partial interests in three properties controlled by the REIT located in Mississauga, Ontario, for a purchase price of $8,014, including closing costs and the assumption of partial interest of the mortgages secured by the properties.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at (In thousands of dollars, except as noted otherwise)	September 30, 2019	December 31, 2018	September 30, 2018
Operational Information			
Number of properties	**42**	47	47
Total suites	**12,587**	13,430	13,430
Occupancy percentage - Canada	**99.4%**	99.1%	99.5%
Occupancy percentage - U.S.	**94.4%**	94.7%	93.5%
AMR - Canada (in actual dollars)	**$1,417**	$1,373	$1,358
AMR - U.S. (in actual U.S. dollars)	**US$1,340**	US$1,236	US$1,231
Summary of Financial Information			
Gross book value	**$3,070,572**	$3,011,469	$2,865,815
Indebtedness	**$1,351,136**	$1,442,607	$1,402,130
Indebtedness to gross book value ratio	**44.0%**	47.9%	48.9%
Weighted average mortgage interest rate(1)	**3.49%**	3.49%	3.48%
Weighted average term to maturity on mortgages payable (years)	**5.1**	5.8	6.1
Exchange rates - United States dollar to Canadian dollar	**$1.32**	$1.36	$1.29
Exchange rates - Canadian dollar to United States dollar	**$0.76**	$0.73	$0.77

(1) Represents the contractual interest rates on mortgages payable and the Retained Debt (defined below).

(In thousands of dollars, except per Unit amounts)	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Summary of Financial Information				
Interest coverage ratio	**2.29**	2.21	**2.28**	2.21
Indebtedness coverage ratio	**1.61**	1.60	**1.60**	1.59
Revenue from real estate properties	**$61,135**	$61,172	**$184,353**	$179,239
NOI	**$38,038**	$38,183	**$93,864**	$93,616
Proportionate NOI	**$31,673**	$31,884	**$95,522**	$94,031
Same Property Proportionate NOI	**$31,431**	$30,702	**$94,406**	$90,636
NOI margin - IFRS	**62.2%**	62.4%	**50.9%**	52.2%
NOI margin - Proportionate	**53.6%**	54.2%	**53.7%**	54.5%
Net income (loss)	**($1,407)**	$25,012	**$44,231**	$125,105
FFO - basic	**$16,148**	$15,510	**$47,091**	$45,946
FFO - diluted	**$17,113**	$16,490	**$49,969**	$48,798
FFO per Unit - basic	**$0.31**	$0.30	**$0.91**	$0.90
FFO per Unit - diluted	**$0.30**	$0.30	**$0.89**	$0.88
Distributions per Unit	**$0.1698**	$0.1650	**$0.5094**	$0.4950
FFO payout ratio	**55.6%**	54.2%	**55.8%**	54.9%
Weighted average number of Units outstanding (in thousands):				
Basic(1)	**52,897**	50,935	**51,609**	50,926
Diluted(1) (2)	**57,130**	55,168	**55,842**	55,271
Average exchange rates - United States dollar to Canadian dollar	**$1.32**	$1.31	**$1.33**	$1.29
Average exchange rates - Canadian dollar to United States dollar	**$0.76**	$0.77	**$0.75**	$0.78

(1) For purposes of calculating FFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis.

(2) Includes the dilutive impact of the convertible debentures.

REAL ESTATE PROPERTIES

As at September 30, 2019, the REIT's multi-suite residential property portfolio consists of 16 Canadian properties and 26 U.S. properties (including one property under development), having a total of 12,587 residential suites. The properties are primarily located in urban centres and major suburban regions in Alberta, Ontario, Colorado, Texas, Louisiana, Illinois, Georgia, Florida, North Carolina, Virginia and Maryland.

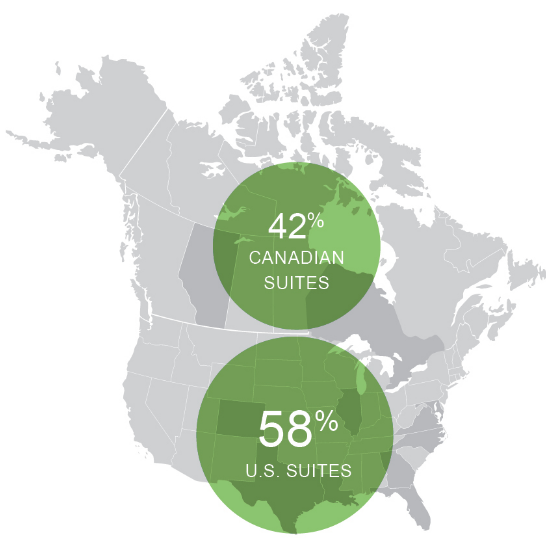
The following table details the regional distribution of the REIT's portfolio as at September 30, 2019:

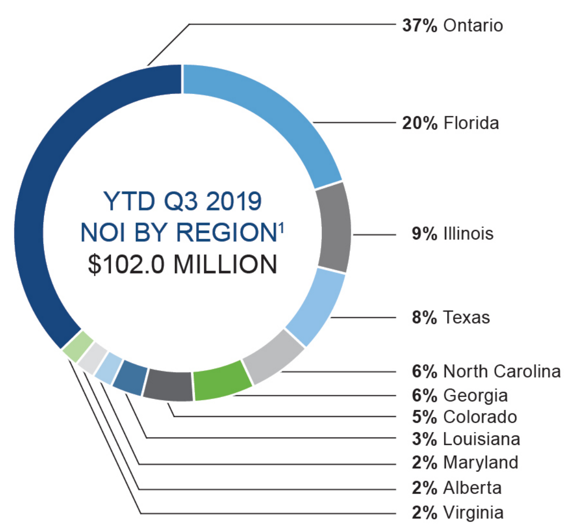
Region (In thousands of dollars, except as otherwise noted)	Number of Properties	Total Suites(1)	% of the Portfolio (based on suites)	Fair Value of Real Estate Properties(1)
Canadian Properties				
Alberta	1	277	2.2%	$61,900
Ontario				
Mississauga	7	2,219	17.6%	633,390
Toronto	6	1,997	15.9%	370,020
Other(2)	2	842	6.7%	193,250
	16	**5,335**	**42.4%**	**$1,258,560**
U.S. Properties				
Colorado	2	454	3.6%	$124,881
Texas	3	1,021	8.1%	212,683
Louisiana	2	279	2.2%	42,378
Illinois	1	515	4.1%	301,676
Georgia	3	814	6.5%	164,226
Florida	10	2,593	20.6%	528,859
North Carolina	2	864	6.9%	177,827
Virginia	1	104	0.8%	65,552
Maryland	1	492	3.9%	174,411
	25	**7,136**	**56.7%**	**$1,792,493**
Impact of realty taxes accounted for under IFRIC 21				5,958
Total before property under development	**41**	**12,471**	**99.1%**	**$3,057,011**
Property under development(3)	1	116	0.9%	20,772
Total	**42**	**12,587**	**100.0%**	**$3,077,783**

(1) Total suites and fair value of real estate properties include non-controlling interest; the REIT, on a proportionate basis, has ownership of 11,912 suites. Fair value of real estate properties represents the sum of income producing properties ($2,902,829) and the REIT's equity-accounted investment property ($174,954) inclusive of non-controlling interest share and the impact of realty taxes accounted for under IFRIC 21.

(2) Other Ontario includes one property in each of Kitchener, Ontario and Ottawa, Ontario.

(3) Represents a property located in New Orleans, Louisiana, under development. The property is expected to commence initial lease-up during the first half of 2020.





1 Excludes the impact of realty taxes accounted for under IFRIC 21.

Approximately 79% of the suites in Canada are located in Toronto and Mississauga, both of which form part of the Greater Toronto Area ("GTA"). The GTA is Canada's most significant economic cluster and contains the largest concentration of people. The regional distribution of the remaining suites serves to add stability to the REIT's cash flows because it reduces the REIT's vulnerability to economic fluctuations affecting any particular region.

AVERAGE MONTHLY RENT AND OCCUPANCY BY REGION

The following table details AMR (in actual dollars), stated in local currency, and occupancy of the REIT's portfolio for the following periods and is calculated on a proportionate ownership basis:

Region	AMR/Suite at September 30, 2019	AMR/Suite at September 30, 2018	% Change	Occupancy at September 30, 2019	Occupancy at September 30, 2018
Canadian Properties (in Canadian dollars)					
Alberta	**$1,406**	$1,377	**2.1%**	**97.5%**	100.0%
Ontario					
Mississauga	**1,567**	1,498	**4.6%**	**99.7%**	99.4%
Toronto	**1,273**	1,232	**3.3%**	**99.4%**	99.5%
Other(1)	**1,363**	1,291	**5.6%**	**99.5%**	99.5%
Total Ontario	**1,418**	1,358	**4.4%**	**99.6%**	99.4%
Total Canada (in Canadian dollars)	**$1,417**	$1,358	**4.3%**	**99.4%**	99.5%
U.S. Properties (in US dollars)					
Colorado	**$1,397**	$1,360	**2.7%**	**93.6%**	93.6%
Texas	**1,299**	1,264	**2.8%**	**92.8%**	92.0%
Louisiana	**1,211**	1,170	**3.5%**	**93.8%**	93.5%
Illinois	**2,429**	2,376	**2.2%**	**98.8%**	94.4%
Georgia	**1,282**	1,209	**6.0%**	**94.6%**	94.5%
Florida	**1,267**	1,212	**4.5%**	**94.7%**	95.2%
North Carolina	**1,073**	1,045	**2.7%**	**95.5%**	91.4%
Virginia	**2,210**	2,095	**5.5%**	**90.3%**	90.4%
Maryland	**1,893**	1,857	**1.9%**	**94.3%**	90.7%
U.S. Same Property	**1,340**	1,292	**3.7%**	**94.4%**	93.7%
Dispositions(2)	**—**	767	**(100.0%)**	**—%**	92.8%
Total U.S. (in US dollars)	**$1,340**	$1,231	**8.9%**	**94.4%**	93.5%
Total (in local currencies)	**$1,374**	$1,284	**7.0%**	**96.7%**	96.0%

(1) Other Ontario includes one property in each of Kitchener, Ontario and Ottawa, Ontario.

(2) U.S. dispositions include the five properties located in Louisiana that were sold during the six months ended June 30, 2019.

As at September 30, 2019, AMR per suite in Canada increased by 4.3% compared to September 30, 2018, mainly due to rental rate increases in line with the Ontario guideline rate in 2019 of 1.8%, above guideline increases at several properties upon the completion of capital projects and rental rate increases on suite turnover.

Strong demand, particularly in Ontario, has allowed the REIT to increase rents as suites turn over. During the nine months ended September 30, 2019, the REIT's Canadian portfolio turned over 633 suites, or 11.9% of total suites located in Canada and achieved AMR growth of 16.8% on suite turnover.

As at September 30, 2019, occupancy in Canada is 99.4%, compared to 99.5% at September 30, 2018, reflecting strong and stable demand predominantly in Ontario. The decrease in occupancy at the REIT's single property located in Edmonton, Alberta, from 100.0% at September 30, 2018, to 97.5% at September 30, 2019, is the result of increased move outs during the quarter due to seasonality.

As at September 30, 2019, Same Property AMR per suite in the U.S. increased by 3.7% compared to September 30, 2018. The REIT had AMR growth in all of U.S. regions mainly attributable to improved occupancy achieved over the winter months creating less availability, which enabled leasing at higher rental rates going into the spring and summer leasing seasons.

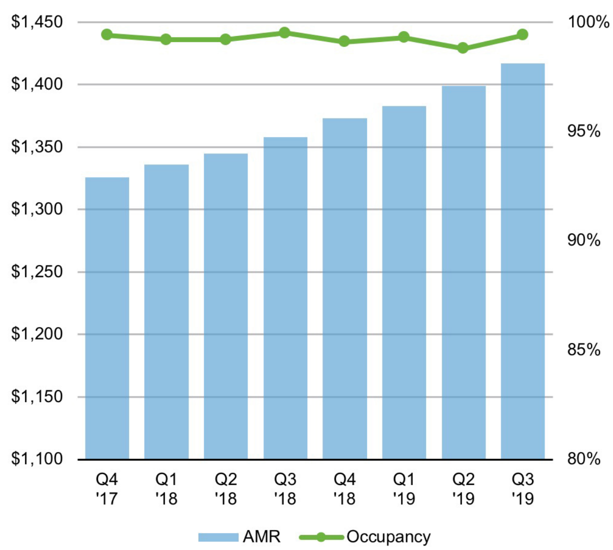
As at September 30, 2019, Same Property occupancy in the U.S. increased to 94.4% compared to 93.7% at September 30, 2018. The improvement in occupancy was mainly due to a focus on tenant retention during the first half of 2019 in order to reduce inventory of vacant suites going into the summer leasing season. During the third quarter, the REIT's U.S. properties performed well through the most active leasing period, this was achieved through the efficient use of revenue management tools aimed at balancing rent growth, traffic and renewal exposure. As at September 30, 2019, the REIT's overall U.S. occupancy reached near optimum levels, improving year over year in: Illinois, North Carolina and Maryland compared to September 30, 2018, resulting from increased marketing efforts and a focus on resident retention. The REIT also maintained AMR growth within each respective sub-market as it enjoyed the same target occupancies.

Sequentially, Same Property occupancy in the U.S. was stable compared to 95.2% as at June 30, 2019, the slight decrease can be attributed to higher than average turnover during the summer leasing season. In addition, the REIT intends to commence lease-up of its newly redeveloped mid-rise property, 1643 Josephine Street, during the first half of 2020, which will further improve the overall quality of the portfolio.

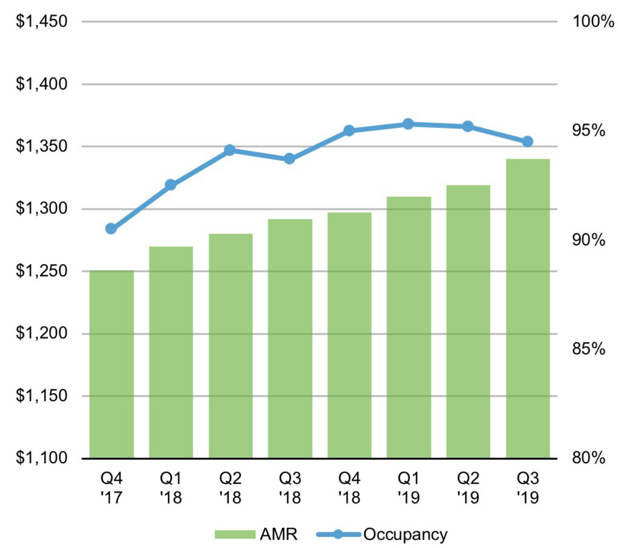
During the three and nine months ended September 30, 2019, the REIT's rental incentives amounted to $483 (2018 - $437) and $739 (2018 - $1,840), respectively, mainly at properties that were impacted by new supply. Market rents are constantly monitored and increased where appropriate, with the objective of maximizing revenue growth while maintaining stable occupancy.

The following table details AMR (in actual dollars), stated in local currency, and occupancy of the REIT's Same Property portfolio at each quarter end since December 31, 2017:

CANADA



U.S.



PART III

REVIEW OF OPERATIONAL RESULTS

The REIT's operational results are summarized below:

	Three months ended September 30		Nine months ended September 30	
(In thousands of dollars)	2019	2018	2019	2018
Revenue from real estate properties	**$61,135**	$61,172	**$184,353**	$179,239
Property operating expenses				
Property operating costs	**(16,205)**	(16,085)	**(47,207)**	(44,898)
Realty taxes	**(2,775)**	(2,420)	**(30,000)**	(26,803)
Utilities	**(4,117)**	(4,484)	**(13,282)**	(13,922)
Net operating income	**38,038**	38,183	**93,864**	93,616
Other expenses (income)				
Interest expense	**18,114**	16,960	**52,124**	48,519
Trust expenses	**3,433**	3,387	**10,633**	10,239
Equity income from investment	**(37)**	(23)	**(2,165)**	(909)
Foreign exchange loss (gain)	**(207)**	463	**486**	(777)
Other income	**(479)**	(9)	**(630)**	(78)
Income before fair value changes and income taxes	**17,214**	17,405	**33,416**	36,622
Fair value gain on real estate properties, net	**9,842**	28,026	**68,427**	133,854
Fair value loss on Class B LP Units	**(24,629)**	(16,879)	**(46,502)**	(16,879)
Income before income taxes	**2,427**	28,552	**55,341**	153,597
Provision for income taxes				
Current	**33**	33	**99**	94
Deferred	**3,801**	3,507	**11,011**	28,398
	3,834	3,540	**11,110**	28,492
Net income (loss) for the period	**($1,407)**	$25,012	**$44,231**	$125,105
Net income (loss) attributable to:				
Unitholders	**($1,950)**	$21,550	**$42,239**	$117,845
Non-controlling interest	**543**	3,462	**1,992**	7,260
	($1,407)	$25,012	**$44,231**	$125,105

REVENUE FROM REAL ESTATE PROPERTIES

Higher rental revenue for the three and nine months ended September 30, 2019 is mainly due to rental rate increases and foreign exchange fluctuations, partly offset by dispositions during the first half of 2019.

NET OPERATING INCOME

The following tables provide the NOI and Proportionate NOI for the REIT's consolidated Canadian and U.S. operations. Same Property NOI for the three and nine months ended September 30, 2019, measures the operating performance for properties owned by the REIT continuously for the current and comparable reporting period and does not take into account the impact of the operating performance of property acquisitions and dispositions as well as development properties until reaching stabilized occupancy.

Same Property results for the three and nine months ended September 30, 2019, measures the operating performance for properties owned and have reached stabilization by the REIT continuously since July 1, 2018 and January 1, 2018, respectively, and excludes the following properties: i) five properties in Louisiana sold during the first half of 2019; ii) 1643 Josephine Street, New Orleans, Louisiana, acquired April 5, 2018 and classified as property under development; and iii) the acquisition of partial interests in three properties controlled by the REIT located in Mississauga, Ontario, on May 22, 2019.

Same Property and Same Property Proportionate results for the three and nine months ended September 30, 2019 represents 11,979 and 11,715 residential suites, respectively.

Net Operating Income - Three months ended September 30, 2019

The following table provides the consolidated net operating income for the REIT's Canadian and U.S. properties:

For the three months ended September 30 (In thousands of dollars)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$60,735**	**$58,712**	$58,232	$56,287
Acquisitions / Dispositions	**400**	**400**	2,940	2,560
Total revenue from properties	**61,135**	**59,112**	61,172	58,847
Property operating expenses				
Same Property				
Operating costs	**16,132**	**15,743**	14,974	14,622
Realty taxes	**2,730**	**7,512**	2,385	6,756
Utilities	**4,077**	**4,026**	4,231	4,207
Same Property	**22,939**	**27,281**	21,590	25,585
Acquisitions / Dispositions	**158**	**158**	1,399	1,378
Total property operating expenses	**23,097**	**27,439**	22,989	26,963
NOI				
Same Property	**37,796**	**31,431**	36,642	30,702
Acquisitions / Dispositions	**242**	**242**	1,541	1,182
Total NOI	**$38,038**	**$31,673**	$38,183	$31,884
NOI margin	**62.2%**	**53.6%**	62.4%	54.2%

For the three months ended September 30, 2019, NOI from the REIT's properties decreased by $145 (or 0.4%) to $38,038, compared to $38,183 in 2018. The decrease in NOI is due to a decrease of $1,299 from the disposition of properties net of the acquisition of partial interests in three properties controlled by the REIT and an increase in Same Property NOI of $1,154 (or 3.1%). The Same Property increase of $1,154 is due to an increase in Canada of $432 (or 3.4%), an increase in the U.S. of US$350 (or 1.9%) and the change in foreign exchange rate which increased NOI by $372.

For the three months ended September 30, 2019, Proportionate NOI from the REIT's properties decreased by $211 (or 0.7%) to $31,673, compared to $31,884 in 2018. The decrease in Proportionate NOI is due to a decrease of $940 from the disposition of properties net of the acquisition of partial interests in three properties controlled by the REIT and an increase in Same Property Proportionate NOI of $729 (or 2.4%). The Same Property increase of $729 is due to an increase in Canada of $431 (or 3.4%), an increase in the U.S. of US$73 (or 0.5%) and the change in foreign exchange rate which increased Proportionate NOI by $225.

The following table provides the consolidated net operating income for the REIT's Canadian and U.S. properties in local currency:

For the three months ended September 30 (In thousands of dollars)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Same Property NOI - Canada (local currency)	**$13,297**	**$13,222**	$12,865	$12,791
Same Property NOI - U.S. (local currency)	**18,548**	**13,785**	18,198	13,712
Acquisitions / Dispositions (local currency)	**242**	**242**	1,234	906
Exchange amount to Canadian dollars	**5,951**	**4,424**	5,886	4,475
Total NOI	**$38,038**	**$31,673**	$38,183	$31,884

The following table provides the NOI and Proportionate NOI for the REIT's Canadian properties:

For the three months ended September 30 (In thousands of dollars)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$23,068**	**$22,942**	$22,100	$21,981
Acquisitions	**400**	**400**	380	—
Total revenue from properties	**23,468**	**23,342**	22,480	21,981
Property operating expenses				
Same Property				
Operating costs	**4,997**	**4,974**	4,589	4,569
Realty taxes	**2,362**	**2,346**	2,217	2,205
Utilities	**2,412**	**2,400**	2,429	2,416
Same Property	**9,771**	**9,720**	9,235	9,190
Acquisitions	**158**	**158**	143	—
Total property operating expenses	**9,929**	**9,878**	9,378	9,190
NOI				
Same Property	**13,297**	**13,222**	12,865	12,791
Acquisitions	**242**	**242**	237	—
NOI	**$13,539**	**$13,464**	$13,102	$12,791
NOI margin	**57.7%**	**57.7%**	58.3%	58.2%

For the three months ended September 30, 2019, NOI from the Canadian properties increased by $437 (or 3.3%) to $13,539, compared to $13,102 in 2018. The increase in NOI is due to an increase in Same Property NOI of $432 (or 3.4%) and an increase of $5 from the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase was due to an increase in rental revenue of $968 (or 4.4%), from higher AMR (4.3%), partially offset by an increase in operating expenses of $536 (or 5.8%). The increase in Same Property operating expenses of $536 was due to higher operating costs of $408 mainly from an increase in insurance expense and repairs and maintenance, and higher realty taxes of $145, partially offset by lower utilities of $17 due to lower consumption resulting from the positive impact of the REIT's energy initiatives and sub-metering programs.

For the three months ended September 30, 2019, Proportionate NOI from the Canadian properties increased by $673 (or 5.3%) to $13,464, compared to $12,791 in 2018. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $431 (or 3.4%) and an increase of $242 from the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase was due to an increase in rental revenue of $961 (or 4.4%), from higher AMR (4.3%), partially offset by an increase in operating expenses of $530 (or 5.8%). The increase in Same Property operating expenses of $530 was due to higher operating costs of $405 mainly from an increase in insurance expense and repairs and maintenance, and higher realty taxes of $141, partially offset by lower utilities of $16 due to lower consumption resulting from the positive impact of the REIT's energy initiatives and sub-metering programs.

The REIT's Canadian NOI margin and Proportionate NOI margin were 57.7% and 57.7%, respectively, for the three months ended September 30, 2019, compared to 58.3% and 58.2%, respectively, for the three months ended September 30, 2018. Overall, as noted above, higher operating cost and realty taxes, led to an increase in operating expenses which contributed to the lower NOI margin.

The following table provides the NOI and Proportionate NOI for the U.S. properties:

For the three months ended September 30 (In thousands of U.S. dollars, unless otherwise stated)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$28,523**	**$27,087**	$27,646	$26,251
Dispositions	**—**	**—**	1,959	1,959
Total revenue from properties	**28,523**	**27,087**	29,605	28,210
Property operating expenses				
Same Property				
Operating costs	**8,435**	**8,159**	7,940	7,685
Realty taxes	**279**	**3,912**	130	3,486
Utilities	**1,261**	**1,231**	1,378	1,368
Same Property	**9,975**	**13,302**	9,448	12,539
Dispositions	**—**	**—**	962	1,053
Total property operating expenses	**9,975**	**13,302**	10,410	13,592
NOI in US dollars				
Same Property	**18,548**	**13,785**	18,198	13,712
Dispositions	**—**	**—**	997	906
Total NOI (in US dollars)	**18,548**	**13,785**	19,195	14,618
Exchange amount to Canadian dollars	**5,951**	**4,424**	5,886	4,475
NOI (in Canadian dollars)	**$24,499**	**$18,209**	$25,081	$19,093
NOI margin (in US dollars)	**65.0%**	**50.9%**	64.8%	51.8%

For the three months ended September 30, 2019, NOI from the U.S. properties decreased by $582 (or 2.3%) to $24,499, compared to $25,081 in 2018. The decrease in NOI is due to a decrease from the disposition of five Louisiana properties of US$997, an increase in Same Property NOI of US$350 (or 1.9%) and the change in foreign exchange rate which increased NOI by $65. The Same Property increase was due to an increase in rental revenue of US$877 (or 3.2%), from higher AMR (3.7%) and improved occupancy, partially offset by an increase in operating expenses of US$527 or (5.6%), mainly from an increase in operating costs and realty taxes. The increase in operating costs is due to an increase in insurance expense, administrative expenses and payroll. The increase in realty taxes is due to an increase in IFRIC 21 adjustment as well as an increase in the assessed market value at certain properties. The increase in Same Property operating expenses were partly offset by a decrease in utilities of $117 due to lower consumption.

For the three months ended September 30, 2019, Proportionate NOI from the U.S. properties decreased by $884 (or 4.6%) to $18,209, compared to $19,093 in 2018. The decrease in Proportionate NOI is due to a decrease from the disposition of five Louisiana properties of US$906, an increase in Same Property Proportionate NOI of US$73 (or 0.5%) and the change in foreign exchange rate which decreased NOI by $51. The Same Property increase was mainly due to an increase in rental revenue of US$836 (or 3.2%) from higher AMR (3.7%) and improved occupancy, partially offset by an increase in operating expenses of US$763 (or 6.1%), mainly from an increase in operating costs and realty taxes. The increase in operating costs is due to an increase in insurance expense, administrative expenses and payroll. The increase in realty taxes is due to an increase in the assessed market value at certain properties. The increase in Same Property operating expenses were partly offset by a decrease in utilities of $137 due to lower consumption.

The REIT's U.S. NOI margin and Proportionate NOI margin were 65.0% and 50.9%, respectively, for the three months ended September 30, 2019, compared to 64.8% and 51.8%, respectively, for the three months ended September 30, 2018. The NOI margin was impacted by accounting for realty taxes under IFRIC 21 and higher operating expenses. The Proportionate NOI margin for the three months ended September 30, 2019, decreased compared to 2018, due to higher operating costs and realty taxes.

Net Operating Income - Nine months ended September 30, 2019

The following table provides the consolidated net operating income for the REIT's Canadian and U.S. properties:

For the nine months ended September 30 (In thousands of dollars)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$181,705**	**$175,200**	$171,396	$165,250
Acquisitions / Dispositions	**2,648**	**2,648**	7,843	7,336
Total revenue from properties	**184,353**	**177,848**	179,239	172,586
Property operating expenses				
Same Property				
Operating costs	**46,066**	**44,955**	41,820	40,704
Realty taxes	**29,427**	**22,859**	26,279	20,716
Utilities	**13,056**	**12,980**	13,278	13,194
Same Property	**88,549**	**80,794**	81,377	74,614
Acquisitions / Dispositions	**1,940**	**1,532**	4,246	3,941
Total property operating expenses	**90,489**	**82,326**	85,623	78,555
NOI				
Total Same Property	**93,156**	**94,406**	90,019	90,636
Acquisitions / Dispositions	**708**	**1,116**	3,597	3,395
Total NOI	**$93,864**	**$95,522**	$93,616	$94,031
NOI margin	**50.9%**	**53.7%**	52.2%	54.5%

For the nine months ended September 30, 2019, NOI from the REIT's properties increased by $248 (or 0.3%) to $93,864, compared to $93,616 in 2018. The increase in NOI is due to an increase in Same Property NOI of $3,137 (or 3.5%) and a decrease of $2,889 from the disposition of properties net of the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase of $3,137 is due to an increase in Canada of $1,352 (or 3.6%), an increase in the U.S. of US$105 (or 0.3%) and the change in foreign exchange rate which increased NOI by $1,680.

For the nine months ended September 30, 2019, Proportionate NOI from the REIT's properties increased by $1,491 (or 1.6%) to $95,522, compared to $94,031 in 2018. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $3,770 (or 4.2%) and a decrease of $2,279 from the disposition of properties net of the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase of $3,770 is due to an increase in Canada of $1,323 (or 3.6%), an increase in the U.S. of US$552 (or 1.3%) and the change in foreign exchange rate which increased Proportionate NOI by $1,895.

The following table provides the consolidated net operating income for the REIT's Canadian and U.S. properties in local currency:

For the nine months ended September 30 (In thousands of dollars)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Same Property NOI - Canada (local currency)	**$39,183**	**$38,551**	$37,831	$37,228
Same Property NOI - U.S. (local currency)	**40,606**	**42,019**	40,501	41,467
Acquisitions / Dispositions (local currency)	**612**	**919**	2,864	2,636
Exchange amount to Canadian dollars	**13,463**	**14,033**	12,420	12,700
Total NOI	**$93,864**	**$95,522**	$93,616	$94,031

The following table provides the NOI and Proportionate NOI for the REIT's Canadian properties:

For the nine months ended September 30 (In thousands of dollars)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$69,033**	**$68,010**	$66,502	$65,519
Acquisitions	**532**	**532**	507	—
Total revenue from properties	**69,565**	**68,542**	67,009	65,519
Property operating expenses				
Same Property				
Operating costs	**14,168**	**13,994**	13,213	13,056
Realty taxes	**7,561**	**7,442**	7,191	7,074
Utilities	**8,121**	**8,023**	8,267	8,161
Same Property	**29,850**	**29,459**	28,671	28,291
Acquisitions	**205**	**205**	187	—
Total property operating expenses	**30,055**	**29,664**	28,858	28,291
NOI				
Same Property	**39,183**	**38,551**	37,831	37,228
Acquisitions	**327**	**327**	320	—
Total NOI	**$39,510**	**$38,878**	$38,151	$37,228
NOI margin	**56.8%**	**56.7%**	56.9%	56.8%

For the nine months ended September 30, 2019, NOI from the Canadian properties increased by $1,359 (or 3.6%) to $39,510, compared to $38,151 in 2018. The increase in NOI is due to an increase in Same Property NOI of $1,352 (or 3.6%) and an increase of $7 from the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase was due to an increase in rental revenue of $2,531 (or 3.8%), from higher AMR (4.3%), partially offset by an increase in operating expenses of $1,179 (or 4.1%). The increase in operating expenses of $1,179 was due to an increase in operating costs of $955 mainly from an increase in insurance expense and repairs and maintenance, and higher realty taxes of $370 resulting from a $216 realty tax refund received in 2018, as well as an increase in the assessed market value at certain properties, partially offset by lower utilities of $146 due to lower consumption resulting from the positive impact of the REIT's energy initiatives and sub-metering programs.

For the nine months ended September 30, 2019, Proportionate NOI from the Canadian properties increased by $1,650 (or 4.4%) to $38,878, compared to $37,228 in 2018. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $1,323 (or 3.6%) and an increase of $327 from the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase was due to an increase in rental revenue of $2,491 (or 3.8%), from higher AMR (4.3%), partially offset by an increase in operating expenses of $1,168 (or 4.1%). The increase in operating expenses of $1,168 was due to an increase in operating cost of $938 mainly from an increase in insurance expense and repairs and maintenance, and higher realty taxes of $368 resulting from a $216 realty tax refund received in 2018, as well as an increase in the assessed market value at certain properties, partially offset by lower utilities of $138 due to lower consumption resulting from the positive impact of the REIT's energy initiatives and sub-metering programs.

The REIT's Canadian NOI margin and Proportionate NOI margin were 56.8% and 56.7%, respectively, for the nine months ended September 30, 2019, compared to 56.9% and 56.8%, respectively, for the nine months ended September 30, 2018. Overall, as noted above, the increase in realty taxes as a result of a refund received in 2018, contributed to the lower NOI margin. When excluding the tax refund received in 2018, the NOI margin increased due to higher AMR resulting in a 3.8% increase in revenue; as well, a decrease in utilities, was partially offset by higher operating costs.

The following table provides the NOI and Proportionate NOI for the U.S. properties:

For the nine months ended September 30 (In thousands of U.S. dollars, unless otherwise stated)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$84,775**	**$80,651**	$81,431	$77,428
Dispositions	**1,592**	**1,592**	5,695	5,695
Total revenue from properties	**86,367**	**82,243**	87,126	83,123
Property operating expenses				
Same Property				
Operating costs	**24,005**	**23,301**	22,193	21,452
Realty taxes	**16,450**	**11,600**	14,847	10,601
Utilities	**3,714**	**3,731**	3,890	3,908
Same Property	**44,169**	**38,632**	40,930	35,961
Dispositions	**1,307**	**1,000**	3,151	3,059
Total property operating expenses	**45,476**	**39,632**	44,081	39,020
NOI in US dollars				
Same Property	**40,606**	**42,019**	40,501	41,467
Dispositions	**285**	**592**	2,544	2,636
Total NOI (in US dollars)	**40,891**	**42,611**	43,045	44,103
Exchange amount to Canadian dollars	**13,463**	**14,033**	12,420	12,700
NOI (in Canadian dollars)	**$54,354**	**$56,644**	$55,465	$56,803
NOI margin (in US dollars)	**47.3%**	**51.8%**	49.4%	53.1%

For the nine months ended September 30, 2019, NOI from the U.S. properties decreased by $1,111 (or 2.0%) to $54,354, compared to $55,465 in 2018. The decrease in NOI is due to a decrease from the disposition of five Louisiana properties of US$2,259, a increase in Same Property NOI of US$105 (or 0.3%) and the change in foreign exchange rate which increased NOI by $1,043. The Same Property increase was due to an increase in rental revenue of US$3,344 (or 4.1%), from higher AMR (3.7%) and improved occupancy, partially offset by higher operating expenses of US$3,239 (or 7.9%), mainly from an increase in operating costs and realty taxes. The increase in operating costs is due to an increase in insurance expense, repairs and maintenance and payroll. The increase in realty taxes is due to an increase in IFRIC 21 adjustment as well as an increase in the assessed market value at certain properties. The increase in Same Property operating expenses were partly offset by a decrease in utilities of $176 due to lower consumption.

For the nine months ended September 30, 2019, Proportionate NOI from the U.S. properties decreased by $159 (or 0.3%) to $56,644, compared to $56,803 in 2018. The decrease in Proportionate NOI is due to a decrease from the disposition of five Louisiana properties of US$2,044, an increase in Same Property Proportionate NOI of US$552 (or 1.3%) and the change in foreign exchange rate which increased NOI by $1,333. The Same Property increase was mainly due to an increase in rental revenue of US$3,223 (or 4.2%), from higher AMR (3.7%) and improved occupancy, partially offset by an increase in operating expenses of US$2,671 (or 7.4%), mainly from an increase in operating costs and realty taxes. The increase in operating costs is due to an increase in insurance expense, repairs and maintenance and payroll. The increase in realty taxes is due to an increase in the assessed market value at certain properties. The increase in Same Property operating expenses were partly offset by a decrease in utilities of $177 due to lower consumption.

The REIT’s U.S. NOI margin and Proportionate NOI margin were 47.3% and 51.8%, respectively, for the nine months ended September 30, 2019, compared to 49.4% and 53.1%, respectively, for the nine months ended September 30, 2018. The NOI margin was impacted by accounting for realty taxes under IFRIC 21. The Proportionate NOI margin for the nine months ended September 30, 2019, decreased compared to 2018, due to higher operating costs and realty taxes.

INTEREST EXPENSE

Interest expense consists of the following:

	Three months ended September 30		Nine months ended September 30	
(In thousands of dollars)	**2019**	2018	**2019**	2018
Interest on mortgages	**$10,179**	$10,591	**$30,823**	$31,260
Distributions on Class C LP Units - interest	**812**	826	**2,414**	2,484
Interest on mortgages and Retained Debt	**10,991**	11,417	**33,237**	33,744
Distributions on Class C LP Units - tax payment	**143**	138	**424**	414
Interest on convertible debentures	**965**	980	**2,878**	2,852
Interest on lease liability	**99**	98	**299**	290
Amortization of mark-to-market adjustment on mortgages	**—**	—	**—**	(443)
Amortization of deferred financing costs	**679**	741	**2,103**	2,233
Amortization of deferred financing costs on convertible debentures	**156**	148	**466**	433
Fair value loss on conversion option on the convertible debentures	**2,157**	596	**3,383**	470
Loss on extinguishment of mortgages payable	**—**	—	**561**	—
Interest expense before distributions on Class B LP Units	**15,190**	14,118	**43,351**	39,993
Distributions on Class B LP Units	**2,924**	2,842	**8,773**	8,526
	$18,114	$16,960	**$52,124**	$48,519

Total interest expense increased by $1,154 during the three months ended September 30, 2019, to $18,114, compared to $16,960 in 2018. The increase is predominantly due to a non-cash increase in fair value change on the convertible debentures' conversion option of $1,561 and an increase of $82 in distributions on Class B LP Units resulting from an increase to monthly distributions during the fourth quarter of 2018, partially offset by a decrease in interest on mortgages of $412 resulting from the disposition of five Louisiana properties during the first and second quarters of 2019. The weakening of the Canadian dollar increased interest expense on U.S. mortgages by $64 excluding the impact of dispositions.

Total interest expense increased by $3,605 during the nine months ended September 30, 2019, to $52,124, compared to $48,519 in 2018. The increase is predominantly due to a loss on extinguishment of mortgages payable of $561, lower amortization of mark-to-market adjustments of $443, a non-cash increase in fair value change on the convertible debentures' conversion option of $2,913 and an increase of $247 in distributions on Class B LP Units resulting from an increase to monthly distributions during the fourth quarter of 2018, partially offset by a decrease in interest on mortgages of $437 resulting from the disposition of five Louisiana properties during the first and second quarters of 2019. The weakening of the Canadian dollar increased interest expense on U.S. mortgages by $664 excluding the impact of dispositions.

Morguard retained the mortgages and deferred financing costs (the "Retained Debt") on four Canadian properties, that were sold to the REIT. Morguard remains responsible for the interest and principal payments on the Retained Debt, and the Retained Debt is secured by charges on the four properties. In consideration of the Retained Debt, Morguard received Class C LP Units on which distribution payments are made in an amount sufficient to permit Morguard to satisfy amounts payable with respect to principal and interest of the Retained Debt and the tax payment that is attributable to any distributions on the Class C LP Units. The portion of the distributions that represents the interest and tax components associated with the Retained Debt that had been classified as interest expense for the three and nine months ended September 30, 2019, amounted to $955 (2018 - $964) and $2,838 (2018 - $2,898), respectively.

Under IFRS, the Class B LP Units are classified as financial liabilities, and the corresponding distributions paid to the Unitholders are classified as interest expense. The REIT believes these distribution payments do not represent financing charges because these amounts are payable only if the REIT declares distributions and only for the amount of any distributions declared, both of which are at the discretion of the Board of Trustees as outlined in the Declaration of Trust. The total distributions paid and accrued to Class B LP Unitholders for the three and nine months ended September 30, 2019 amounted to $2,924 (2018 - $2,842) and $8,773 (2018 - $8,526), respectively.

TRUST EXPENSES

Trust expenses consist of the following:

	Three months ended September 30		Nine months ended September 30	
(In thousands of dollars)	2019	2018	2019	2018
Asset management fees and distributions	**$2,982**	$2,828	**$8,816**	$8,335
Professional fees	**196**	279	**828**	918
Public company expenses	**174**	132	**539**	476
Other	**81**	148	**450**	510
	$3,433	$3,387	**$10,633**	$10,239

Trust expenses increased by $46 during the three months ended September 30, 2019, to $3,433, compared to $3,387 in 2018, and increased by $394 during the nine months ended September 30, 2019, to $10,633, compared to $10,239 in 2018. The increase during the three and nine months ended September 30, 2019 is predominantly due to higher asset management fees and distributions, resulting from an increase in gross book value and growth in FFO (see Part VI, “Related Party Transactions”).

EQUITY INCOME FROM INVESTMENT

The REIT acquired a 50% interest in a property comprising 492 suites located in Rockville, Maryland, in which the REIT has joint control of the investment and accounts for its investment using the equity method.

Equity income from investment for the three months ended September 30, 2019, was $37 and included a non-cash fair value loss of $606 and an IFRIC 21 adjustment of $272. For the three months ended September 30, 2018, equity income from investment was $23 and included a non-cash fair value loss of $484 and an IFRIC 21 adjustment of $279.

Equity income from investment for the nine months ended September 30, 2019, was $2,165 and included a non-cash fair value gain of $1,649 and an IFRIC 21 expense adjustment of $273. For the nine months ended September 30, 2018, equity income from investment was $909 and included a non-cash fair value gain of $362 and an IFRIC 21 expense adjustment of $264.

FOREIGN EXCHANGE LOSS (GAIN)

IFRS requires monetary assets and liabilities denominated in foreign currencies to be translated into Canadian dollars at the exchange rate in effect at the reporting date, and any gain or loss is recognized in the consolidated statements of income (loss). For the three months ended September 30, 2019, the REIT’s foreign exchange gain amounted to $207 (2018 - loss of $463) and for the nine months ended September 30, 2019, the REIT’s foreign exchange loss amounted to $486 (2018 - gain of $777), which is mainly the result of the fluctuation of the Canadian dollar against the United States dollar as at September 30, 2019, when compared to December 31, 2018.

OTHER INCOME

Other income mainly represents interest income earned from the Morguard Facility on advances made to Morguard and other expenses. Other income during the three months ended September 30, 2019, amounted to $479 (2018 - $9) and for the nine months ended September 30, 2019, amounted to $630 (2018 - $78).

FAIR VALUE GAIN ON REAL ESTATE PROPERTIES, NET

The REIT elected to adopt the fair value model to account for its real estate properties, and changes in fair value each period have been recognized as fair value gain or loss in the consolidated statements of income (loss). Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including stabilized NOI and capitalization rates.

For the three months ended September 30, 2019, the REIT recognized a net fair value gain of $9,842 (2018 - $28,026). The fair value gain comprises of $6,059 at the REIT’s Canadian properties as a result of an increase in stabilized NOI and $3,783 at the U.S. properties, which was predominantly due to an increase in stabilized NOI, net of a $5,234 adjustment on realty taxes accounted for under IFRIC 21.

For the nine months ended September 30, 2019, the REIT recognized a net fair value gain of $68,427 (2018 - $133,854). The fair value gain comprises $49,425 at the REIT's Canadian properties as a result of an increase in stabilized NOI and $19,002 at the U.S. properties, which was predominantly due to a net increase in stabilized NOI and an $5,847 adjustment on realty taxes accounted for under IFRIC 21.

FAIR VALUE LOSS ON CLASS B LP UNITS

The Class B LP Units are classified as financial liabilities in accordance with IFRS and, as a result, are recorded at their fair value at each reporting date. As at September 30, 2019, 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 $341,878 (December 31, 2018 - $295,376). The REIT incurred a fair value loss for the three and nine months ended September 30, 2019 of $24,629 (2018 - $16,879) and $46,502 (2018 - $16,879), respectively (see Part V, "Capital Structure and Debt Profile").

INCOME TAXES

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.

Current tax expense for the three and nine months ended September 30, 2019 amounted to $33 (2018 - $33) and $99 (2018 - $94), respectively.

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. For the three and nine months ended September 30, 2019, the REIT has recorded a deferred tax expense for U.S. federal and state taxes associated with the U.S. subsidiaries of $3,801 (2018 - $3,507) and $11,011 (2018 - $28,398), respectively. The deferred tax expense is mainly due to a fair value increase related to the U.S. properties.

The REIT's income tax provision consists of the following:

	Three months ended September 30		Nine months ended September 30	
(In thousands of dollars)	2019	2018	2019	2018
Current	**$33**	$33	**$99**	$94
Deferred	**3,801**	3,507	**11,011**	28,398
Provision for income taxes	**$3,834**	$3,540	**$11,110**	$28,492

As at September 30, 2019, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$36,189 (December 31, 2018 - US$30,075) 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, 2019, the REIT's U.S. subsidiaries have a total of US$8,885 (December 31, 2018 - US$8,172) of unutilized interest expense deductions of which deferred tax assets were recognized.

FUNDS FROM OPERATIONS

The following table provides a reconciliation of FFO to its closely related financial statement measurement for the following periods:

	Three months ended September 30		Nine months ended September 30	
(In thousands of dollars, except per Unit amounts)	2019	2018	2019	2018
Net income (loss) for the period attributable to Unitholders	**($1,950)**	$21,550	**$42,239**	$117,845
Add/(deduct):				
Realty taxes accounted for under IFRIC 21(1)	**(4,991)**	(4,631)	**5,522**	4,530
Fair value loss on conversion option on the convertible debentures	**2,157**	596	**3,383**	470
Distributions on Class B LP Units recorded as interest expense(2)	**2,924**	2,842	**8,773**	8,526
Foreign exchange loss (gain)	**(207)**	463	**486**	(777)
Fair value gain on real estate properties, net(3)	**(9,236)**	(27,542)	**(70,076)**	(134,216)
Non-controlling interests' share of fair value gain (loss) on real estate properties	**(979)**	1,846	**(749)**	4,291
Fair value loss on Class B LP Units	**24,629**	16,879	**46,502**	16,879
Deferred income tax provision	**3,801**	3,507	**11,011**	28,398
FFO - basic	**$16,148**	$15,510	**$47,091**	$45,946
Interest expense on the convertible debentures	**965**	980	**2,878**	2,852
FFO - diluted	**$17,113**	$16,490	**$49,969**	$48,798
FFO per Unit - basic	**$0.31**	$0.30	**$0.91**	$0.90
FFO per Unit - diluted	**$0.30**	$0.30	**$0.89**	$0.88
Weighted average number of Units outstanding (in thousands):				
Basic(4)	**52,897**	50,935	**51,609**	50,926
Diluted(4) (5)	**57,130**	55,168	**55,842**	55,271

(1) Realty taxes accounted for under IFRIC 21 (including equity-accounted investments) and excludes non-controlling interests' share.

(2) Under IFRS, the Class B LP Units are considered financial liabilities and, as a result of this classification, their corresponding distribution amounts are considered interest expense. The REIT believes these distribution payments do not truly represent financing charges because these amounts are payable only if the REIT declares distributions and only for the amount of any distributions declared, both of which are at the discretion of the Board of Trustees as outlined in the Declaration of Trust. Therefore, these distributions are excluded from the calculation of FFO.

(3) Includes fair value adjustment on real estate properties for equity-accounted investment.

(4) For purposes of calculating FFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis.

(5) Includes the dilutive impact of the convertible debentures.

Basic FFO for the three months ended September 30, 2019, increased by $638, or 4.1%, to $16,148 ($0.31 per Unit), compared to $15,510 ($0.30 per Unit) in 2018. The increase is mainly due to an increase in other income of $470 and a decrease in interest expense of $415 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures), partially offset by lower Proportionate NOI of $211 and an increase in trust expenses of $46.

Basic FFO per Unit for the three months ended September 30, 2019, was $0.31 per Unit, compared to $0.30 per Unit for the three months ended September 30, 2018. The disposal of the five Louisiana properties had a $0.01 per Unit negative impact.

Basic FFO for the nine months ended September 30, 2019, increased by $1,145, or 2.5%, to $47,091 ($0.91 per Unit), compared to $45,946 ($0.90 per Unit) in 2018. The increase is mainly due to higher Proportionate NOI of $1,491 and an increase in other income of $552, partially offset by an increase in interest expense of $510 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures) and an increase in trust expenses of $394. The increase in interest expense of $510 includes lower amortization of mark-to-market adjustments of $443 and a $561 loss on extinguishment of mortgage payable in connection with the disposal of five Louisiana properties.

Basic FFO per Unit for the nine months ended September 30, 2019, increased by $0.01 to $0.91 per Unit, compared to $0.90 per Unit for the nine months ended September 30, 2018. The change in the foreign exchange rate had a $0.02 per Unit positive impact and the disposal of the five Louisiana properties had a $0.03 per Unit negative impact.

In addition, the issuance of Units on August 28, 2019 had a negative impact of $0.005 per Unit for the three and nine months ended September 30, 2019. The impact includes the dilution from additional Units of the Offering offset by approximately one month of interest income earned on proceeds advanced on the Morguard Facility.

DISTRIBUTIONS

The Trustees have discretion with respect to the timing and amounts of distributions. For the three and nine months ended September 30, 2019, total distributions amounted to $9,246 (2018 - $8,405) and $26,550 (2018 - $25,210), respectively.

On October 30, 2018, the REIT announced that its Board of Trustees has approved an increase to its annual cash distributions by $0.02 per Unit (3.03%) to $0.68 per Unit on an annualized basis from $0.66 per Unit. The increase was effective for the November 2018 distribution, paid on December 14, 2018.

Three months ended September 30 (In thousands of dollars)	2019 Units	2019 Class B LP Units	2019 Total	2018 Units	2018 Class B LP Units	2018 Total
Distributions paid and declared	**$6,179**	**$2,924**	**$9,103**	$5,421	$2,842	$8,263
Distributions – DRIP	**143**	**—**	**143**	142	—	142
Total	**$6,322**	**$2,924**	**$9,246**	$5,563	$2,842	$8,405

Nine months ended September 30 (In thousands of dollars)	2019 Units	2019 Class B LP Units	2019 Total	2018 Units	2018 Class B LP Units	2018 Total
Distributions paid and declared	**$17,359**	**$8,773**	**$26,132**	$16,326	$8,526	$24,852
Distributions – DRIP	**418**	**—**	**418**	358	—	358
Total	**$17,777**	**$8,773**	**$26,550**	$16,684	$8,526	$25,210

The following table summarizes distributions paid to holders of Units in relation to net income (loss) and cash provided by operating activities:

(In thousands of dollars)	Three months ended September 30, 2019	Nine months ended September 30, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Net income (loss)	**($1,407)**	**$44,231**	$174,710	$173,131
Cash provided by operating activities	**11,141**	**37,385**	59,947	59,476
Distributions - Units(1)	**$6,322**	**$17,777**	$22,355	$21,663
Excess (deficiency) of net income (loss) over distributions	**($7,729)**	**$26,454**	$152,355	$151,468
Excess of cash provided by operating activities over distributions	**$4,819**	**$19,608**	$37,592	$37,813

(1) Excludes distributions on Class B LP Units since these were recorded as interest expense and, therefore, were deducted in calculating net income and cash provided by operating activities.

Net income (loss) for the three and nine months ended September 30, 2019, includes a net loss of $13,317 and net income of $7,232, respectively, of non-cash components relating to a fair value gain on real estate properties, fair value loss on Class B LP Units, an IFRIC 21 adjustment to realty taxes, equity income from investment and deferred taxes. Net income exceeded distributions when removing the impact of these non-cash items.

In determining the annual level of distributions to Unitholders, the REIT looks at forward-looking cash flow information, including forecasts and budgets, and the future prospects of the REIT. Furthermore, the REIT does not consider periodic cash flow fluctuations resulting from items such as the timing of property operating costs, property tax instalments or semi-annual debenture interest payments in determining the level of distributions to Unitholders in any particular quarter. Additionally, in establishing the level of distributions to the Unitholders, the REIT considers the impact of, among other items, the future growth in the income producing properties, the impact of future acquisitions and capital expenditures related to the income producing properties.

PART IV

BALANCE SHEET ANALYSIS

REAL ESTATE PROPERTIES

The REIT accounts for its real estate properties using the fair value model. The following table provides the regional allocation of real estate properties for the following periods:

As at (In thousands of Canadian dollars, unless otherwise stated)	September 30, 2019	December 31, 2018
Canadian Properties		
Alberta	**$61,900**	$61,000
Ontario	**1,196,660**	1,148,490
Total Canadian Properties	**1,258,560**	1,209,490
U.S. Properties (in US dollars)		
Colorado	**94,300**	93,600
Texas	**160,600**	159,900
Louisiana	**32,000**	79,500
Illinois	**227,800**	227,400
Georgia	**124,010**	120,940
Florida	**399,350**	393,360
North Carolina	**134,280**	127,210
Virginia	**49,500**	49,100
	1,221,840	1,251,010
Property under development	**15,685**	12,254
Impact of realty taxes accounted for under IFRIC 21	**4,089**	—
Total U.S. Properties (in US dollars)	**1,241,614**	1,263,264
Exchange amount to Canadian dollars	**402,655**	460,081
Total U.S. Properties (in Canadian dollars)	**1,644,269**	1,723,345
Total real estate properties	**$2,902,829**	$2,932,835

The value of real estate properties decreased by $30,006 as at September 30, 2019, to $2,902,829, compared to $2,932,835 at December 31, 2018. The decrease is mainly the result of the following:

- The disposition of five U.S. properties located in Louisiana totalling $63,809 (see Part II, "Significant Events");
- A decrease of $50,265 due to the change in U.S. dollar foreign exchange rate;
- A net fair value gain on real estate properties of $68,022, which is mainly attributable to an increase in stabilized NOI at Canadian properties and a $5,415 adjustment on realty taxes accounted for under IFRIC 21; and
- Capitalization of property enhancements and development expenditures of $23,527.

APPRAISAL CAPITALIZATION RATES

Morguard's appraisal division consists of Appraisal Institute of Canada ("AIC") designated Accredited Appraiser Canadian Institute ("AACI") members who are qualified to offer valuation and consulting services and expertise for all types of real property, all of whom are knowledgeable and have recent experience in the fair value techniques for investment properties. AACI designated members must adhere to AIC's Canadian Uniform Standards of Professional Appraisal Practice ("CUSPAP") and undertake ongoing professional development. Morguard's appraisal division is responsible for determining the fair value of investment properties every quarter. The team reports to a senior executive, and the internal valuation team's valuation processes and results are reviewed by senior management at least once every quarter, in line with the REIT's quarterly reporting dates.

As at September 30, 2019, and December 31, 2018, the REIT had all 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.

The REIT utilizes the direct capitalization income method to determine the fair value of its income producing properties. 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 real estate properties at each reporting period.

As at September 30, 2019, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 6.8% (December 31, 2018 - 4.0% to 7.8%), resulting in an overall weighted average capitalization rate of 4.7% (December 31, 2018 - 4.7%).

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

	September 30, 2019 Capitalization Rates			December 31, 2018 Capitalization Rates		
	Max.	**Min.**	**Weighted Average**	Max.	Min.	Weighted Average
Canada						
Alberta	**5.0%**	**5.0%**	**5.0%**	5.0%	5.0%	5.0%
Ontario	**4.5%**	**4.0%**	**4.2%**	4.5%	4.0%	4.2%
United States						
Colorado	**5.3%**	**5.3%**	**5.3%**	5.3%	5.3%	5.3%
Texas	**5.3%**	**5.0%**	**5.1%**	5.3%	5.0%	5.1%
Louisiana	**6.8%**	**5.5%**	**6.0%**	7.8%	5.5%	6.8%
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%	5.0%	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%
Maryland[(1)]	**4.5%**	**4.5%**	**4.5%**	4.5%	4.5%	4.5%

(1) Includes an equity-accounted investment.

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 in stabilized net operating income), the value of the real estate properties as at September 30, 2019, would decrease by $145,840 or increase by $162,489, respectively.

PROPERTY UNDER DEVELOPMENT

On April 5, 2018, the REIT acquired a property comprising 116 suites located in New Orleans, Louisiana, for a purchase price of $14,866 (US$11,636), including closing costs. The property is vacant and designated as a property under development. The REIT plans to complete capital upgrades during the first half of 2020, at which point initial lease-up will commence. During the nine months ended September 30, 2019, the REIT incurred $4,560 of development expenditures related to the development project.

PROPERTY CAPITAL INVESTMENTS

The REIT has a continual capital improvement program with respect to its investment properties. The program is designed to maintain and improve the operating performance of the properties and has enhanced the value of the properties by allowing the REIT to charge higher rents or by enabling it to lower operating expenses. The capital investments have also increased resident retention by ensuring that the properties retain their attractiveness to both existing and prospective tenants.

The REIT is committed to improving its operating performance by incurring appropriate capital expenditures in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income generating potential over the portfolio's useful life. In accordance with IFRS, the REIT capitalizes all capital improvement expenditures on its properties which enhance the service potential of the property and extend the useful lives of the asset.

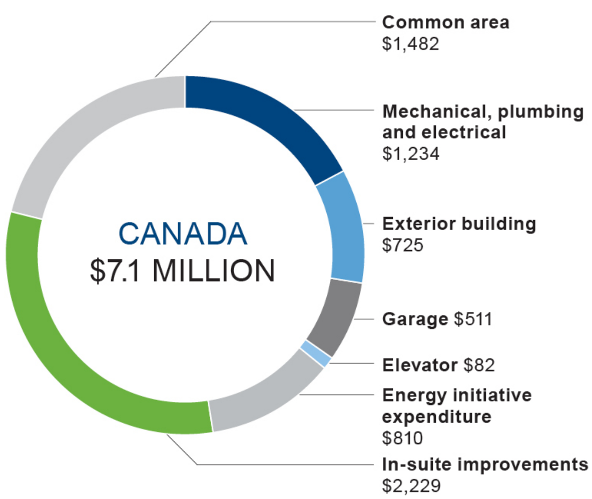
The following table provides additional details on total capital expenditures over the following periods:

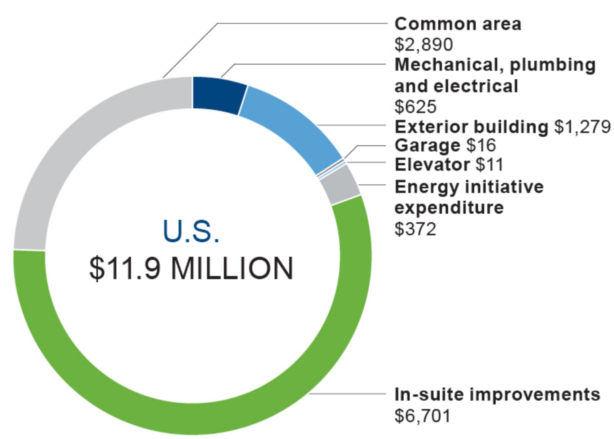
	Nine months ended September 30		Year ended December 31	
(In thousands of dollars)	**2019**	2018	2018	2017
Common area	**$4,372**	$1,750	$3,721	$3,097
Mechanical, plumbing and electrical	**1,859**	1,384	2,083	2,414
Exterior building	**2,004**	1,969	4,772	4,129
Garage	**527**	723	1,471	1,917
Elevator	**93**	42	42	18
Energy initiative expenditure	**1,182**	3,009	5,321	2,416
In-suite improvements	**8,930**	8,319	11,540	7,586
Total capital expenditures	**$18,967**	$17,196	$28,950	$21,577

Capital Expenditures by Region

The following details total capital expenditures by region:

For the nine months ended September 30, 2019
(In thousands of dollars)





EQUITY-ACCOUNTED INVESTMENT

The REIT owns a 50% interest in a property comprising 492 suites located in Rockville, Maryland, in which the REIT has joint control of the investment and accounts for its investment using the equity method. Development of the property was completed in 2008. The Fenestra at Rockville Town Square (“The Fenestra”) comprises three six-storey buildings, featuring condo-quality amenities located in an urban growth market within commuting distance of Washington, D.C.

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

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	**$40,859**	$37,295
Share of net income	**2,165**	271
Foreign exchange gain (loss)	**(1,213)**	3,293
Balance, end of period	**$41,811**	$40,859

PART V

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Net cash flows from operating activities represent the primary source of liquidity to fund distributions and maintenance capital expenditures. The REIT's net cash flows from operating activities depend on the occupancy level of its rental properties, rental rates on its leases, collectibility of rent from its tenants, level of operating expenses and other factors. Material changes in these factors may adversely affect the REIT's cash flows from operating activities and liquidity (see Part VII, "Risks and Uncertainties").

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, maintenance and property capital expenditure commitments as they become due, and to provide for the future growth of the business. The REIT expects to have sufficient liquidity as a result of cash flows from operating activities and financing available through the Morguard Facility. Accordingly, the REIT does not intend to repay maturing debt from cash flow but rather with proceeds from refinancing such debt, subject to certain conditions (see Part V, "Capital Structure and Debt Profile").

CASH FLOWS

The following table details the changes in cash for the following periods:

	Three months ended September 30		Nine months ended September 30	
(In thousands of dollars)	2019	2018	2019	2018
Cash provided by operating activities	**$11,141**	$9,364	**$37,385**	$38,644
Cash provided by (used in) investing activities	**(10,397)**	(7,640)	**15,099**	(32,520)
Cash used in financing activities	**(4,824)**	(5,477)	**(48,903)**	(12,557)
Net increase (decrease) in cash during the period	**(4,080)**	(3,753)	**3,581**	(6,433)
Net effect of foreign currency translation on cash balance	**65**	(30)	**77**	(345)
Cash, beginning of the period	**24,459**	22,126	**16,786**	25,121
Cash, end of period	**$20,444**	$18,343	**$20,444**	$18,343

Three months ended September 30, 2019 and 2018

Cash Provided by Operating Activities

Cash provided by operating activities during the three months ended September 30, 2019, was $11,141, compared to $9,364 in 2018. The change during the period mainly relates to an increase in non-cash operating assets and liabilities of $962, an increase in foreign exchange gain of $670, an increase in other income of $470 and a decrease in interest on mortgages of $412, partially offset by a decrease in NOI (excluding IFRIC 21 adjustment) of $510, an increase in distributions on Class B LP Units of $82 and an increase in additions to tenant incentives of $46.

Cash Used in Investing Activities

Cash used in investing activities during the three months ended September 30, 2019, totalled $10,397, compared to $7,640 during the same period in 2018. Cash used in investing activities during the period consists of the capitalization of property enhancements and development expenditures of $10,397.

Cash Used in Financing Activities

Cash used in financing activities during the three months ended September 30, 2019, was $4,824, compared to $5,477 during the same period in 2018. The cash used in financing activities during the period was largely due to net repayments of the Morguard Facility of $91,005, distributions paid to Unitholders of $5,882, mortgage principal instalment repayments of $5,553, increase in restricted cash of $1,133, distributions to non-controlling interest of $842, partially offset by net proceeds from issuance of Units of $99,591.

Nine months ended September 30, 2019 and 2018

Cash Provided by Operating Activities

Cash provided by operating activities during the nine months ended September 30, 2019, was $37,385, compared to $38,644 in 2018. The change during the period mainly relates to a decrease in non-cash operating assets and liabilities of $2,960, an increase in foreign exchange loss of $1,263, an increase in trust expenses of $394 and an increase in distributions on Class B LP Units of $247, partially offset by an increase in NOI (excluding IFRIC 21 adjustment) of $1,334, a decrease in additions to tenant incentives of $1,101, an increase in other income of $552 and a decrease in interest on mortgage of $437.

Cash Provided by (Used in) Investing Activities

Cash provided by investing activities during the nine months ended September 30, 2019, totalled $15,099, compared to cash used in investing activities of $32,520 during the same period in 2018. The cash provided by investing activities during the period consists of the net proceeds from sale of five Louisiana properties totaling $38,626, partially offset by capitalization of property enhancements and development expenditures of $23,527.

Cash Used in Financing Activities

Cash used in financing activities during the nine months ended September 30, 2019, totalled $48,903, compared to $12,557 during the same period in 2018. The cash used in financing activities during the period was largely due to the net repayment of the Morguard Facility of $91,596, distributions paid to Unitholders of $17,062, mortgage principal instalment repayments of $16,778, repayment due to a mortgage extinguishment in connection with the disposal of a property of $11,331, an increase in subsidiary ownership interest of $8,014, distributions to non-controlling interest of $2,648 and an increase in restricted cash of $1,065, partially offset by net proceeds from issuance of Units of $99,591.

CAPITAL STRUCTURE AND DEBT PROFILE

The REIT’s capital management is designed to maintain a level of capital that allows it to implement its business strategy while complying with investment and debt restrictions pursuant to the Declaration of Trust, as well as existing debt covenants, while continuing to build long-term Unitholder value and maintaining sufficient capital contingencies.

The total managed capital of the REIT is summarized below:

As at (In thousands of dollars)	September 30, 2019	December 31, 2018
Mortgages payable, principal balance	**$1,167,865**	$1,243,887
Class C LP Units and present value of tax payment, principal balance	**88,302**	90,663
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**—**	12,803
Lease liability	**9,469**	9,754
Class B LP Units	**341,878**	295,376
Unitholders’ equity	**1,122,159**	1,018,423
Total capitalization	**$2,815,173**	$2,756,406

DEBT PROFILE

As at September 30, 2019, the overall leverage, as represented by the ratio of total indebtedness to gross book value was 44.0%. The maximum allowable ratio under the Declaration of Trust is 70%.

The interest coverage ratio and the indebtedness coverage ratio are calculated based on obligations associated with mortgages payable and Class C LP Units, lease liability, the convertible debentures and the Morguard Facility.

The following table summarizes the key liquidity metrics:

As at	September 30, 2019	December 31, 2018
Total indebtedness to gross book value	**44.0%**	47.9%
Weighted average mortgage interest rate[1]	**3.49%**	3.49%
Weighted average term to maturity on mortgages payable (years)	**5.1**	5.8

(1) Represents the contractual interest rates on mortgages payable and Class C LP Units.

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Interest coverage ratio [1] [2]	**2.29**	2.21	**2.28**	2.21
Indebtedness coverage ratio [1] [3]	**1.61**	1.60	**1.60**	1.59

(1) Excludes realty taxes accounted for under IFRIC 21, which are adjusted on a *pro rata* basis over the entire fiscal year.

(2) Interest coverage ratio is defined as net income (loss) before equity income (loss) from investment, interest expense, income taxes, fair value adjustments, foreign exchange loss (gain) and the impact of realty taxes accounted for under IFRIC 21, divided by interest expense excluding distributions on Class B LP Units, amortization of mark-to-market adjustments, and fair value adjustments but including interest on the convertible debentures.

(3) Indebtedness coverage ratio is defined as net income (loss) before equity income (loss) from investment, interest expense, income taxes, fair value adjustments, foreign exchange loss (gain), and the impact of realty taxes accounted for under IFRIC 21, divided by interest expense including the contractual payments on mortgages payable and Class C LP Units and interest on the convertible debentures and excluding distributions on Class B LP Units, amortization of mark-to-market adjustments and any fair value adjustments.

MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at	September 30, 2019			December 31, 2018
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,167,865**	**$79,445**	**$1,247,310**	$1,325,810
Deferred financing costs	**(10,987)**	**(561)**	**(11,548)**	(14,423)
Present value of tax payment on Class C LP Units	**—**	**8,857**	**8,857**	8,740
	$1,156,878	**$87,741**	**$1,244,619**	$1,320,127
Range of interest rates	**2.25−4.25%**	**3.97%**	**2.25−4.25%**	2.25−4.25%
Weighted average interest rate	**3.45%**	**3.97%**	**3.49%**	3.49%
Weighted average term to maturity (years)	**5.3**	**1.8**	**5.1**	5.8
Fair value of mortgages and Class C LP Units	**$1,204,473**	**$81,129**	**$1,285,602**	$1,323,506

As at September 30, 2019, the principal balance on the mortgages payable and Class C LP Units totalled $1,247,310 (December 31, 2018 - $1,325,810) and the deferred financing costs associated with the mortgages and Class C LP Units amounted to $11,548 (December 31, 2018 - $14,423).

The carrying value of the Class C LP Units that were issued to Morguard in consideration for the Retained Debt (see Part III, "Review of Operational Results") includes the present value of the tax payments, which have been estimated to amount to $8,857 as at September 30, 2019 (December 31, 2018 - $8,740).

Mortgages payable and Class C LP Units decreased by $75,508 as at September 30, 2019, to $1,244,619, compared to $1,320,127 at December 31, 2018. The decrease is mainly due to the following:

- The assumption and repayment of mortgages on the disposition of five properties located in Louisiana totalling $36,514 (US$27,451) which had a weighted average interest rate of 3.50%;
- Scheduled principal repayments of $16,778;

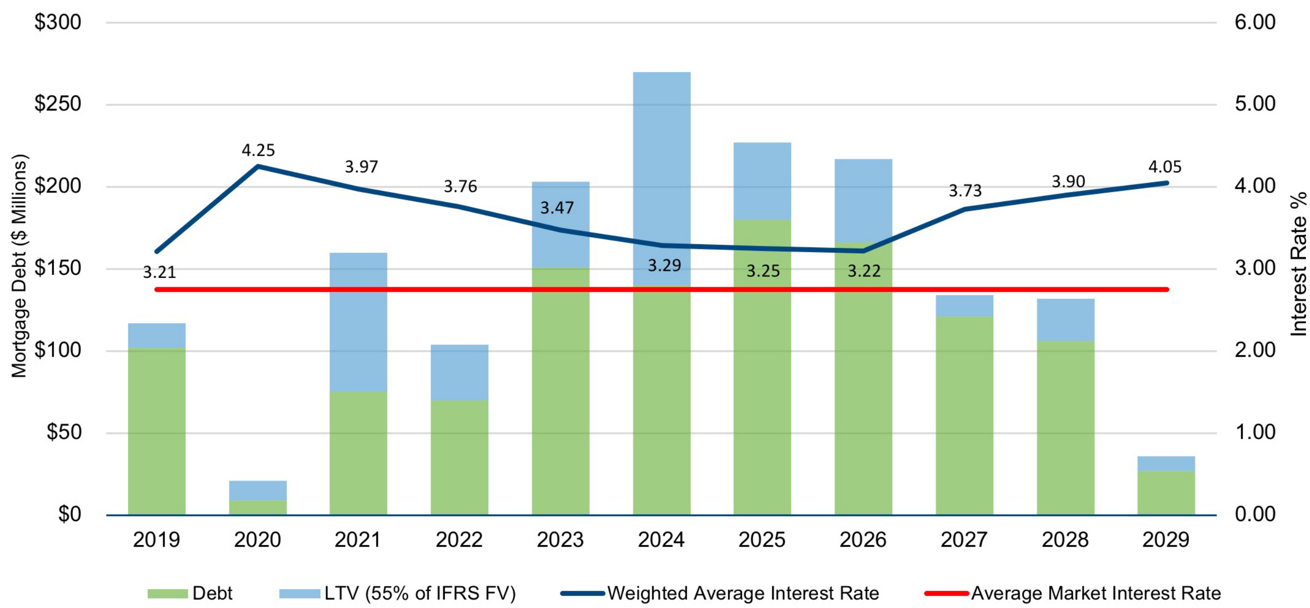
- A decrease of $25,304 due to the change in U.S. dollar foreign exchange rate; partly offset by; and
- Amortization of deferred financing cost, the loss on extinguishment of mortgage payable and the present value adjustment of tax liability on Class C LP Units of $3,088.

Substantially all of the REIT's rental properties and related rental revenue have been pledged as collateral for the mortgages payable. The REIT's first mortgages are registered against specific real estate assets. Short-term fluctuations in working capital are funded through the Morguard Facility.

The REIT anticipates meeting all future obligations and has no off balance sheet financing arrangements.

As at September 30, 2019, the following table illustrates the REIT's mortgages and Class C LP Units, along with the IFRS fair value (at a loan-to-value of 55%) secured against the mortgages by year of maturity:

As at September 30, 2019



The following table details the REIT's mortgages and Class C LP Units that are scheduled to mature in the next two years.

	2019			2020		
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Canada	—	$—	—%	1	$8,828	4.25%
U.S.	3	101,547	3.21%	—	—	—%
	3	**$101,547**	**3.21%**	**1**	**$8,828**	**4.25%**

On October 1, 2019, the REIT completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,304 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at (In thousands of dollars)	September 30, 2019	December 31, 2018
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**5,852**	2,469
Unamortized financing costs	**(2,457)**	(2,923)
	$88,618	$84,769

For the three and nine months ended September 30, 2019, interest on the convertible debentures amounting to $965 (2018 - $980) and $2,878 (2018 - $2,852), respectively, are included in interest expense.

4.50% Convertible Unsecured Subordinated Debentures

On February 13, 2018, the REIT issued $75,000 principal amount of 4.50% convertible unsecured subordinated debentures maturing on March 31, 2023 (“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, commencing on September 30, 2018. 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, 2019, and December 31, 2018, $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.

4.65% Convertible Unsecured Subordinated Debentures

On March 15, 2013, the REIT issued $60,000 principal amount of 4.65% convertible unsecured subordinated debentures (the “2013 Debentures”) maturing on March 30, 2018. On February 23, 2018, $23 of the 2013 Debentures were converted into 1,483 Units, and on February 26, 2018, the REIT redeemed the remaining $59,977 of its outstanding 2013 Debentures in advance of their March 30, 2018 maturity date.

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, 2019, the net amount receivable under the Morguard Facility was $77,699 comprising an amount receivable of US$48,100 and a receivable of $14,000. As at December 31, 2018, the net amount payable under the Morguard Facility was $12,803, comprising an amount receivable of US$22,858 and a payable of $43,986.

During the three and nine months ended September 30, 2019, the REIT earned on the Morguard Facility net interest income of $393 (2018 - $7) and $585 (2018 - $15), respectively.

UNITHOLDERS' EQUITY, SPECIAL VOTING UNITS AND CLASS B LP UNITS

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.

The following table summarizes the changes in Units for the period from December 31, 2017, to September 30, 2019:

Issued and Fully Paid Units (In thousands, except Unit amounts)	Units	Amount
Balance, December 31, 2017	33,690,613	$367,928
Units issued under DRIP	30,784	480
2013 Debentures converted	1,483	23
Balance, December 31, 2018	33,722,880	368,431
Issuance of Units for cash, net of costs	**5,226,200**	**99,591**
Units issued under DRIP	**23,010**	**418**
Balance, September 30, 2019	**38,972,090**	**$468,440**

On August 28, 2019, the REIT completed an offering for 5,226,200 Units sold for a price of $19.75 per Unit for aggregate gross proceeds of $103,217. The net proceeds of the Offering, after underwriters' commission and other closing costs totalling $3,626, was $99,591. Morguard purchased 1,269,000 of the Units offered amounting to $25,063.

NORMAL COURSE ISSUER BIDS

On December 13, 2018, the REIT obtained the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 2,556,288 Units, being approximately 10% of the public float of outstanding Units; the program expires on December 20, 2019. The daily repurchase restriction for the Units is 6,157. Additionally, the REIT may purchase up to $8,050 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 $12. 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, 2019.

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, 2019, the REIT issued 23,010 Units under the DRIP (December 31, 2018 - 30,784 Units).

SPECIAL VOTING UNITS AND CLASS B LP 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.

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 that 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, 2019, and December 31, 2018, there were 17,223,090 Class B LP Units issued and outstanding.

As at September 30, 2019, 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 $341,878 (December 31, 2018 - $295,376) and a corresponding fair value loss for the three and nine months ended September 30, 2019 of $24,629 (2018 - $16,879) and $46,502 (2018 - $16,879), respectively. For the three and nine months ended September 30, 2019, distributions on Class B LP Units amounting to $2,924 (2018 - $2,842) and $8,773 (2018 - $8,526), respectively, are included in interest expense.

As at September 30, 2019, Morguard owned a 44.8% effective interest in the REIT through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

As at October 29, 2019, there were 38,974,303 Units and 17,223,090 exchangeable Class B LP Units issued and outstanding.

PART VI

RELATED PARTY TRANSACTIONS

Related party transactions that are in the normal course of operations are subject to the same processes and controls as other transactions; that is, they are subject to standard approval procedures and management oversight but are also considered by management for reasonability against fair value. Related party transactions that are found to be material are subject to review and approval by the REIT's Audit Committee, which consists of independent directors.

AGREEMENTS WITH MORGUARD AFFILIATES

The REIT, Morguard NAR Canada Limited Partnership (the "Partnership") and its subsidiaries entered into a series of agreements ("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, 2019 amounted to $2,135 (2018 - $2,120) and $6,449 (2018 - $6,252), respectively, are included in property operating costs and equity income from investment.

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, 2019 amounted to $3,037 (2018 - $2,882) and $8,980 (2018 - $8,493), respectively, are included in trust expenses and equity income from investment.

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. Fees relating to acquisition services for the three and nine months ended September 30, 2019 amounted to $nil (2018 - $nil) and $nil (2018 - $110), respectively.

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, 2019 amounting to $nil (2018 - $nil) and $nil (2018 - $121), respectively, 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, 2019, amounted to $17 (2018 - $nil) and $49 (2018 - $nil), respectively, and are included in property under development.

Other Services

As at September 30, 2019, 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, 2019, amounting to $53 (2018 - $58) and $163 (2018 - $174), respectively, are included in trust expenses.

All the Agreements have an initial term of 10 years and are renewable for further terms of five years each, subject to certain notice provisions or upon the occurrence of an event of default as stipulated in the provisions of the Agreements.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The REIT's condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, have been prepared in accordance with IAS 34, *Interim Financial Reporting,* as issued by the IASB. The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies as described in Note 3 of the unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2019, and should be read in conjunction with the most recent annual audited consolidated financial statements.

The MD&A for the year ended December 31, 2018, contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being the accounting estimates of fair values of income producing properties and valuation of financial instruments. Management determined that as at September 30, 2019, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2018.

FINANCIAL INSTRUMENTS

The following describes the REIT's recognized and unrecognized financial instruments.

The REIT's financial assets and liabilities comprise cash, restricted cash, amounts receivable, the Morguard Facility, accounts payable and accrued liabilities, mortgages payable and Class C LP Units, Class B LP Units, lease liability and the convertible debentures.

Financial assets must be classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Fair values of financial assets and liabilities are presented as follows:

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 those 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, 2019, market rates for debts of similar terms. Based on these assumptions, as at September 30, 2019, 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 $1,204,473 and $81,129 (December 31, 2018 - $1,239,641 and $83,865), 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 values of the convertible debentures are based on their market trading price. As at September 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $88,946 (December 31, 2018 - $85,500), compared with the carrying value of $85,223 (December 31, 2018 - $85,223).

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

ADOPTION OF ACCOUNTING STANDARDS

CURRENT ACCOUNTING POLICY CHANGES

IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the REIT is the lessor.

The REIT adopted the standard on January 1, 2019, using a modified retrospective approach. The REIT elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The REIT also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

Leases previously classified as finance leases
The REIT did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases
The REIT reviewed all operating lease contracts in which it is a lessee and concluded that all operating leases were either short-term lease for which the REIT applied the short-term leases exemption to leases having a lease term that ends within 12 months at the date of initial application or low-value asset and therefore had no impact upon adoption.

Summary of new accounting policies that have been applied from the date of initial application
At the commencement date of a lease, the REIT will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Certain right-of-use assets related to land leases meet the definition of investment property under IAS 40, *Investment Property*; therefore, the fair value model is applied to those assets. Interest expense on the lease liability and the fair value gain (loss) on the right-of-use asset is recognized separately.

The REIT measures lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the REIT and payments of penalties for terminating a lease, if the lease term reflects the REIT exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the REIT uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The REIT applies the recognition exemptions for leases of low-value assets and short-term leases.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")
IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, *Income Taxes* ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. IFRIC 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments collectively;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The REIT adopted the interpretation on January 1, 2019. IFRIC 23 did not have a material impact on the REIT's consolidated financial statements.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and activities of the REIT that investors should carefully consider before investing in securities of the REIT. Risks and uncertainties are disclosed in the REIT's MD&A for the year ended December 31, 2018 and in the Risks and Uncertainties section of the latest Annual Information Form dated, February 12, 2019.

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented and assessed the design of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. This undertaking has enabled the Chief Executive Officer and Chief Financial Officer to attest that the design of the internal controls with regard to financial information are effective using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework (2013). In order to ensure that the consolidated financial statements and MD&A present fairly, in all material respects, the financial position of the REIT and the results of its operations, management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

The REIT's management has evaluated the effectiveness of the REIT's disclosure controls and procedures and, based on such evaluation, has concluded that their design is adequate and effective as of and for the nine months ended September 30, 2019. The REIT's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design is effective as of and for the nine months ended September 30, 2019.

An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. This policy aims in particular at identifying material information and validating the related reporting. Morguard's Disclosure Committee, established in 2005, is responsible for ensuring compliance with this policy for both Morguard and the REIT. Morguard's senior management acts as the Disclosure Committee, ensuring compliance with this policy and reviewing main documents to be filed with regulatory authorities to ensure that all significant information regarding operations is communicated in a timely manner.

PART VIII

SUMMARY OF QUARTERLY INFORMATION

The following table provides a summary of operating results for the last eight quarters.

(In thousands of dollars, except per Unit amounts)	Revenue	NOI	FFO	Net Income (Loss) Attributable to Unitholders	Net Income (Loss) Attributable to Unitholders per Unit	
					Basic	Diluted(1)
September 30, 2019	**$61,135**	**$38,038**	**$16,148**	**($1,950)**	**($0.05)**	**($0.03)**
June 30, 2019	60,960	38,989	15,697	40,719	0.80	0.77
March 31, 2019	62,258	16,837	15,246	3,470	0.07	0.07
December 31, 2018	62,129	38,077	15,215	54,380	1.07	0.94
September 30, 2018	61,172	38,183	15,510	21,550	0.41	0.41
June 30, 2018	59,973	38,323	15,687	17,620	0.35	0.34
March 31, 2018	58,094	17,110	14,749	78,675	1.55	1.43
December 31, 2017	56,886	35,452	13,654	91,499	1.80	1.63

(1) Includes the dilutive impact of the convertible debentures.

SUMMARY OF QUARTERLY RESULTS

A significant portion of the REIT's real estate properties are located in the United States. As a result, the REIT is exposed to foreign currency exchange rate fluctuations with respect to its quarterly results derived from its properties located in the U.S.

Quarterly results fluctuate due to acquisitions and dispositions, the impact of foreign exchange rate fluctuations and mortgage refinancing. In addition, net income (loss) includes a number of non-cash components, such as, fair value gain (loss) on Class B LP Units, fair value gain (loss) on real estate properties, an IFRIC 21 adjustment to realty taxes, equity income (loss) from investment and deferred taxes.

During the second quarter of 2019, the REIT disposed a property comprising 48 suites and acquired partial interests in three properties controlled by the REIT.

During the first quarter of 2019, the REIT disposed for four properties comprising 795 suites.

During the second quarter of 2018, the REIT acquired a property comprising of 116 suites that is vacant and classified as a property under development.

During the fourth quarter of 2017, the REIT sold a 49% interest in its property Coast at Lakeshore East, located in Chicago, Illinois.

Revenue and Net Operating Income

The regional distribution of the REIT's suites serves to add stability to the REIT's cash flows because it reduces the REIT's vulnerability to economic fluctuations affecting any particular region. However, tenant retention and leasing vacant suites are critical to maintaining occupancy levels.

In Canada, certain provinces and territories have enacted residential tenancy legislation that, among other things, imposes rent control guidelines that limit the REIT's ability to raise rental rates at its properties. For the calendar year 2019, the Ontario guideline increase amount was established at 1.8% (1.8% for 2018 and 1.5% for 2017). In addition, overbuilding in the multi-suite residential sector, particularly in the United States, may increase the supply of multi-suite residential properties, further increasing the level of competition in certain markets. Such competition may reduce occupancy rates and rental revenues of the REIT and, consequently, revenue and operating results.

The REIT has seen steady revenue growth during the last eight quarters resulting from an increase in Same Property revenue. The decline in revenue during the quarters ended June 30, 2019 and September 30, 2019, is a result of the impact of the disposal of five properties during the first half of 2019, which was partially offset by an increase in Same Property revenue.

As at September 30, 2019, Same Property occupancy in Canada was 99.4%, reflecting stable demand predominantly in Ontario. Approximately 79% of the suites in Canada are located in the GTA. The GTA is Canada's most significant economic cluster and contains the largest concentration of people.

As at September 30, 2019, Same Property occupancy in the U.S. was 94.4% as the REIT's overall U.S. occupancy reached near optimum levels, improving year over year in all U.S. regions except for Florida and Virginia compared to September 30, 2018, resulting from increased marketing efforts and a focus on resident retention.

Similar to revenue, NOI has profiled steady growth over the last eight quarters resulting from an increase in revenue and the REIT's ability to control expenses as a percentage of revenue. The impact of foreign exchange rates and of acquisitions and dispositions also factor into the variance from quarter to quarter. Furthermore, the first quarter results (three months ended March 31) are impacted by IFRIC 21, whereby the REIT records the entire annual realty tax expense for its U.S. properties on January 1, except for U.S. properties acquired during the year in which the realty taxes are not recorded in the year of acquisition. As a result, the second, third and fourth quarters typically have no realty tax expense which results in higher NOI and NOI margins.

Net Income (Loss) Attributable to Unitholders

Taking into account the above factors for revenue and NOI variations, the change in net income (loss) is predominantly due to a change in non-cash components described below:

- The REIT valued the Class B LP Units based on the closing price of the TSX-listed Units, over the last eight quarters there has generally been an upward trend in the trading price of the REIT's Units resulting in a fair value loss on Class B LP Units;
- The REIT has recorded a fair value gain on real estate properties for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, due to an overall increase in stabilized NOI and compression in capitalization rates;
- The REIT has recorded deferred tax expense coinciding with the fair value gains of the REIT's U.S. real estate properties. During the nine months ended September 30, 2019, the REIT recorded a deferred tax recovery of $11,011 due to a fair value increase related to the U.S. properties. In addition, during the fourth quarter of 2017, the REIT recorded an income tax recovery of $44,734 resulting from a U.S. federal tax rate decrease from 35% to 21% enacted on December 22, 2017.

SUBSEQUENT EVENTS

Subsequent to September 30, 2019, the REIT announced that its Board of Trustees has approved an increase to its annual cash distributions by $0.02 per Unit (2.94%). The increase is expected to be effective for the November 2019 distribution, payable in December 2019. This will bring the distribution to $0.70 per Unit on an annualized basis from the current level of $0.68 per Unit.

On October 1, 2019, the REIT completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,304 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.

PART IX

RECONCILIATION OF NON-IFRS MEASURES

The REIT's proportionate consolidated financial statements are as follows:

BALANCE SHEETS

As at September 30, 2019	IFRS	Non-IFRS Adjustments NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
ASSETS					
Non-current assets					
Real estate properties	**$2,902,829**	**($193,256)**	**$87,477**	**($5,687)**	**$2,791,363**
Equity-accounted investment	**41,811**	**—**	**(41,811)**	**—**	**—**
	2,944,640	**(193,256)**	**45,666**	**(5,687)**	**2,791,363**
Current assets					
Morguard Facility	**77,699**	**—**	**—**	**—**	**77,699**
Amounts receivable	**3,397**	**(178)**	**283**	**—**	**3,502**
Prepaid expenses	**10,534**	**(270)**	**76**	**—**	**10,340**
Restricted cash	**13,858**	**(113)**	**1,677**	**—**	**15,422**
Cash	**20,444**	**(484)**	**416**	**—**	**20,376**
	125,932	**(1,045)**	**2,452**	**—**	**127,339**
	$3,070,572	**($194,301)**	**$48,118**	**($5,687)**	**$2,918,702**
LIABILITIES AND EQUITY					
Non-current liabilities					
Mortgages payable and Class C LP Units	**$1,113,351**	**($99,946)**	**$46,634**	**$—**	**$1,060,039**
Convertible debentures	**88,618**	**—**	**—**	**—**	**88,618**
Class B LP Units	**341,878**	**—**	**—**	**—**	**341,878**
Deferred income tax liabilities	**121,951**	**—**	**—**	**—**	**121,951**
Accounts payable and accrued liabilities	**9,469**	**—**	**—**	**—**	**9,469**
	1,675,267	**(99,946)**	**46,634**	**—**	**1,621,955**
Current liabilities					
Mortgages payable and Class C LP Units	**131,268**	**(62)**	**—**	**—**	**131,206**
Accounts payable and accrued liabilities	**51,225**	**(3,640)**	**1,484**	**(5,687)**	**43,382**
	182,493	**(3,702)**	**1,484**	**(5,687)**	**174,588**
Total liabilities	**1,857,760**	**(103,648)**	**48,118**	**(5,687)**	**1,796,543**
EQUITY					
Unitholders' equity	**1,122,159**	**—**	**—**	**—**	**1,122,159**
Non-controlling interest	**90,653**	**(90,653)**	**—**	**—**	**—**
Total equity	**1,212,812**	**(90,653)**	**—**	**—**	**1,122,159**
	$3,070,572	**($194,301)**	**$48,118**	**($5,687)**	**$2,918,702**

The following table provides a reconciliation of gross book value and Indebtedness as defined in the Declaration of Trust from their IFRS financial statement presentation:

As at September 30, 2019	IFRS	Non-IFRS Adjustments NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
Total Assets / Gross book value(1)	**$3,070,572**	**($194,301)**	**$48,118**	**($5,687)**	**$2,918,702**
Mortgage payable and Class C LP Units	$1,244,619	($100,008)	$46,634	$—	$1,191,245
Add: deferred financing costs	11,548	(461)	345	—	11,432
	1,256,167	(100,469)	46,979	—	1,202,677
Convertible debentures, face value	85,500	—	—	—	85,500
Lease liability	9,469	—	—	—	9,469
Indebtedness	**$1,351,136**	**($100,469)**	**$46,979**	**$—**	**$1,297,646**
Indebtedness / Gross book value	**44.0%**				**44.5%**

(1) Gross book value (as defined in the Declaration of Trust) includes the impact of any fair value adjustments.

STATEMENTS OF INCOME (LOSS)

For the three months ended September 30 (In thousands of dollars)	2019 IFRS	2019 Non-IFRS Adjustments NCI Share	2019 Non-IFRS Adjustments Equity Interest	2019 Non-IFRS Adjustments IFRIC 21	2019 Proportionate Basis (Non-IFRS)	2018 IFRS	2018 Non-IFRS Adjustments NCI Share	2018 Non-IFRS Adjustments Equity Interest	2018 Non-IFRS Adjustments IFRIC 21	2018 Proportionate Basis (Non-IFRS)
Revenue from properties										
Same Property	$60,735	($3,688)	$1,665	$—	$58,712	$58,232	($3,587)	$1,642	$—	$56,287
Acquisitions / Dispositions	400	—	—	—	400	2,940	(380)	—	—	2,560
Total revenue from properties	61,135	(3,688)	1,665	—	59,112	61,172	(3,967)	1,642	—	58,847
Property operating expenses										
Same Property										
Operating costs	16,132	(859)	470	—	15,743	14,974	(904)	552	—	14,622
Realty taxes	2,730	(209)	—	4,991	7,512	2,385	(127)	(11)	4,509	6,756
Utilities	4,077	(109)	58	—	4,026	4,231	(132)	108	—	4,207
Same Property	22,939	(1,177)	528	4,991	27,281	21,590	(1,163)	649	4,509	25,585
Acquisitions / Dispositions	158	—	—	—	158	1,399	(143)	—	122	1,378
Total property operating expenses	23,097	(1,177)	528	4,991	27,439	22,989	(1,306)	649	4,631	26,963
NOI										
Same Property	37,796	(2,511)	1,137	(4,991)	31,431	36,642	(2,424)	993	(4,509)	30,702
Acquisitions / Dispositions	242	—	—	—	242	1,541	(237)	—	(122)	1,182
Total NOI[(1)]	38,038	(2,511)	1,137	(4,991)	31,673	38,183	(2,661)	993	(4,631)	31,884
Other expenses (income)										
Interest expense	18,114	(921)	438	—	17,631	16,960	(990)	433	—	16,403
Trust expenses	3,433	(68)	56	—	3,421	3,387	(55)	53	—	3,385
Equity income from investment	(37)	—	37	—	—	(23)	—	23	—	—
Foreign exchange loss (gain)	(207)	—	—	—	(207)	463	—	—	—	463
Other income	(479)	—	—	—	(479)	(9)	—	—	—	(9)
Income before fair value changes and income taxes	17,214	(1,522)	606	(4,991)	11,307	17,405	(1,616)	484	(4,631)	11,642
Fair value gain on real estate properties, net	9,842	979	(606)	4,991	15,206	28,026	(1,846)	(484)	4,631	30,327
Fair value loss on Class B LP Units	(24,629)	—	—	—	(24,629)	(16,879)	—	—	—	(16,879)
Income before income taxes	2,427	(543)	—	—	1,884	28,552	(3,462)	—	—	25,090
Provision for income taxes										
Current	33	—	—	—	33	33	—	—	—	33
Deferred	3,801	—	—	—	3,801	3,507	—	—	—	3,507
	3,834	—	—	—	3,834	3,540	—	—	—	3,540
Net income (loss) for the period	($1,407)	($543)	$—	$—	($1,950)	$25,012	($3,462)	$—	$—	$21,550
(1) NOI included the following:										
IFRIC 21	($5,234)	$515	($272)	$4,991	$—	($4,869)	$517	($279)	$4,631	$—

The following table provides a reconciliation of interest and indebtedness coverage ratios from their IFRS financial statement presentation:

For the three months ended September 30 (In thousands of dollars)	2019 IFRS	2019 Non-IFRS Adjustments NCI Share	2019 Non-IFRS Adjustments Equity Interest	2019 Non-IFRS Adjustments IFRIC 21	2019 Proportionate Basis (Non-IFRS)	2018 IFRS	2018 Non-IFRS Adjustments NCI Share	2018 Non-IFRS Adjustments Equity Interest	2018 Non-IFRS Adjustments IFRIC 21	2018 Proportionate Basis (Non-IFRS)
NOI	$38,038	($2,511)	$1,137	($4,991)	$31,673	$38,183	($2,661)	$993	($4,631)	$31,884
IFRIC 21 adjustment	(5,234)	515	(272)	4,991	—	(4,869)	517	(279)	4,631	—
Trust expenses	(3,433)	68	(56)	—	(3,421)	(3,387)	55	(53)	—	(3,385)
Other income	479	—	—	—	479	9	—	—	—	9
	$29,850	($1,928)	$809	$—	$28,731	$29,936	($2,089)	$661	$—	$28,508
Interest expense	$18,114	($921)	$438	$—	$17,631	$16,960	($990)	$433	$—	$16,403
Fair value loss on conversion option on the convertible debentures	(2,157)	—	—	—	(2,157)	(596)	—	—	—	(596)
Distributions on Class B LP Units	(2,924)	—	—	—	(2,924)	(2,842)	—	—	—	(2,842)
	$13,033	($921)	$438	$—	$12,550	$13,522	($990)	$433	$—	$12,965
Interest coverage ratio	2.29				2.29	2.21				2.20
Indebtedness coverage ratio	1.61				1.59	1.60				1.58

STATEMENTS OF INCOME (LOSS) (CONTINUED)

	2019					2018				
		Non-IFRS Adjustments					Non-IFRS Adjustments			
For the nine months ended September 30 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**IFRIC 21**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
Revenue from properties										
Same Property	**$181,705**	**($11,581)**	**$5,076**	**$—**	**$175,200**	$171,396	($11,040)	$4,894	$—	$165,250
Acquisitions / Dispositions	**2,648**	**—**	**—**	**—**	**2,648**	7,843	(507)	—	—	7,336
Total revenue from properties	**184,353**	**(11,581)**	**5,076**	**—**	**177,848**	179,239	(11,547)	4,894	—	172,586
Property operating expenses										
Same Property										
Operating costs	**46,066**	**(2,708)**	**1,597**	**—**	**44,955**	41,820	(2,553)	1,437	—	40,704
Realty taxes	**29,427**	**(2,546)**	**1,092**	**(5,114)**	**22,859**	26,279	(2,219)	1,068	(4,412)	20,716
Utilities	**13,056**	**(472)**	**396**	**—**	**12,980**	13,278	(495)	411	—	13,194
Same Property	**88,549**	**(5,726)**	**3,085**	**(5,114)**	**80,794**	81,377	(5,267)	2,916	(4,412)	74,614
Acquisitions / Dispositions	**1,940**	**—**	**—**	**(408)**	**1,532**	4,246	(187)	—	(118)	3,941
Total property operating expenses	**90,489**	**(5,726)**	**3,085**	**(5,522)**	**82,326**	85,623	(5,454)	2,916	(4,530)	78,555
NOI										
Same Property	**93,156**	**(5,855)**	**1,991**	**5,114**	**94,406**	90,019	(5,773)	1,978	4,412	90,636
Acquisitions / Dispositions	**708**	**—**	**—**	**408**	**1,116**	3,597	(320)	—	118	3,395
Total NOI[1]	**93,864**	**(5,855)**	**1,991**	**5,522**	**95,522**	93,616	(6,093)	1,978	4,530	94,031
Other expenses (income)										
Interest expense	**52,124**	**(2,899)**	**1,309**	**—**	**50,534**	48,519	(2,925)	1,270	—	46,864
Trust expenses	**10,633**	**(215)**	**166**	**—**	**10,584**	10,239	(199)	161	—	10,201
Equity income from investment	**(2,165)**	**—**	**2,165**	**—**	**—**	(909)	—	909	—	—
Foreign exchange loss (gain)	**486**	**—**	**—**	**—**	**486**	(777)	—	—	—	(777)
Other income	**(630)**	**—**	**—**	**—**	**(630)**	(78)	—	—	—	(78)
Income before fair value changes and income taxes	**33,416**	**(2,741)**	**(1,649)**	**5,522**	**34,548**	36,622	(2,969)	(362)	4,530	37,821
Fair value gain on real estate properties, net	**68,427**	**749**	**1,649**	**(5,522)**	**65,303**	133,854	(4,291)	362	(4,530)	125,395
Fair value loss on Class B LP Units	**(46,502)**	**—**	**—**	**—**	**(46,502)**	(16,879)	—	—	—	(16,879)
Income before income taxes	**55,341**	**(1,992)**	**—**	**—**	**53,349**	153,597	(7,260)	—	—	146,337
Provision for income taxes										
Current	**99**	**—**	**—**	**—**	**99**	94	—	—	—	94
Deferred	**11,011**	**—**	**—**	**—**	**11,011**	28,398	—	—	—	28,398
	11,110	**—**	**—**	**—**	**11,110**	28,492	—	—	—	28,492
Net income for the period	**$44,231**	**($1,992)**	**$—**	**$—**	**$42,239**	$125,105	($7,260)	$—	$—	$117,845
(1) NOI included the following:										
IFRIC 21	**$5,847**	**($598)**	**$273**	**($5,522)**	**$—**	$4,761	($495)	$264	($4,530)	$—

The following table provides a reconciliation of interest and indebtedness coverage ratios from their IFRS financial statement presentation:

	2019					2018				
		Non-IFRS Adjustments					Non-IFRS Adjustments			
For the nine months ended September 30 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**IFRIC 21**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
NOI	$93,864	($5,855)	$1,991	$5,522	$95,522	$93,616	($6,093)	$1,978	$4,530	$94,031
IFRIC 21 adjustment	5,847	(598)	273	(5,522)	—	4,761	(495)	264	(4,530)	—
Trust expenses	(10,633)	215	(166)	—	(10,584)	(10,239)	199	(161)	—	(10,201)
Other income	630	—	—	—	630	78	—	—	—	78
	$89,708	**($6,238)**	**$2,098**	**$—**	**$85,568**	**$88,216**	**($6,389)**	**$2,081**	**$—**	**$83,908**
Interest expense	$52,124	($2,899)	$1,309	$—	$50,534	$48,519	($2,925)	$1,270	$—	$46,864
Loss on extinguishment of mortgages	(561)	—	—	—	(561)	—	—	—	—	—
Amortization of mark-to-market adjustment on mortgages	—	—	—	—	—	443	—	—	—	443
Fair value loss on conversion option on the convertible debentures	(3,383)	—	—	—	(3,383)	(470)	—	—	—	(470)
Distributions on Class B LP Units	(8,773)	—	—	—	(8,773)	(8,526)	—	—	—	(8,526)
	$39,407	**($2,899)**	**$1,309**	**$—**	**$37,817**	**$39,966**	**($2,925)**	**$1,270**	**$—**	**$38,311**
Interest coverage ratio	**2.28**				**2.26**	**2.21**				**2.19**
Indebtedness coverage ratio	**1.60**				**1.57**	**1.59**				**1.56**

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

BALANCE SHEETS
In thousands of Canadian dollars

As at	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Real estate properties	4	**$2,902,829**	$2,932,835
Equity-accounted investment	5	**41,811**	40,859
		2,944,640	2,973,694
Current assets			
Morguard Facility	9	**77,699**	—
Amounts receivable		**3,397**	3,652
Prepaid expenses		**10,534**	4,164
Restricted cash		**13,858**	13,173
Cash		**20,444**	16,786
		125,932	37,775
		$3,070,572	$3,011,469
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable and Class C LP Units	6	**$1,113,351**	$1,195,709
Convertible debentures	7	**88,618**	84,769
Class B LP Units	8	**341,878**	295,376
Deferred income tax liabilities		**121,951**	114,351
Accounts payable and accrued liabilities	10	**9,469**	9,754
		1,675,267	1,699,959
Current liabilities			
Mortgages payable and Class C LP Units	6	**131,268**	124,418
Morguard Facility	9	**—**	12,803
Accounts payable and accrued liabilities	10	**51,225**	46,428
		182,493	183,649
Total liabilities		**1,857,760**	1,883,608
EQUITY			
Unitholders' equity		**1,122,159**	1,018,423
Non-controlling interest		**90,653**	109,438
Total equity		**1,212,812**	1,127,861
		$3,070,572	$3,011,469

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF INCOME (LOSS)

In thousands of Canadian dollars

	Note	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Revenue from real estate properties	12	**$61,135**	$61,172	**$184,353**	$179,239
Property operating expenses					
Property operating costs		**(16,205)**	(16,085)	**(47,207)**	(44,898)
Realty taxes		**(2,775)**	(2,420)	**(30,000)**	(26,803)
Utilities		**(4,117)**	(4,484)	**(13,282)**	(13,922)
Net operating income		**38,038**	38,183	**93,864**	93,616
Other expenses (income)					
Interest expense	13	**18,114**	16,960	**52,124**	48,519
Trust expenses	14	**3,433**	3,387	**10,633**	10,239
Equity income from investment	5	**(37)**	(23)	**(2,165)**	(909)
Foreign exchange loss (gain)		**(207)**	463	**486**	(777)
Other income		**(479)**	(9)	**(630)**	(78)
Income before fair value changes and income taxes		**17,214**	17,405	**33,416**	36,622
Fair value gain on real estate properties, net		**9,842**	28,026	**68,427**	133,854
Fair value loss on Class B LP Units	8	**(24,629)**	(16,879)	**(46,502)**	(16,879)
Income before income taxes		**2,427**	28,552	**55,341**	153,597
Provision for income taxes					
Current		**33**	33	**99**	94
Deferred		**3,801**	3,507	**11,011**	28,398
		3,834	3,540	**11,110**	28,492
Net income (loss) for the period		**($1,407)**	$25,012	**$44,231**	$125,105
Net income (loss) attributable to:					
Unitholders		**($1,950)**	$21,550	**$42,239**	$117,845
Non-controlling interest		**543**	3,462	**1,992**	7,260
		($1,407)	$25,012	**$44,231**	$125,105

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	
	2019	2018	**2019**	2018
Net income (loss) for the period	**($1,407)**	$25,012	**$44,231**	$125,105
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that may be reclassified subsequently to net income (loss):				
Unrealized foreign currency translation gain (loss)	**9,350**	(12,978)	**(23,367)**	20,980
Total comprehensive income for the period	**$7,943**	$12,034	**$20,864**	$146,085
Total comprehensive income (loss) attributable to:				
Unitholders	**$6,385**	$10,177	**$21,504**	$135,973
Non-controlling interest	**1,558**	1,857	**(640)**	10,112
	$7,943	$12,034	**$20,864**	$146,085

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, 2017		$367,928	$48,762	$332,735	$64,917	$814,342	$103,364	$917,706
Changes during the period:								
Net income		—	—	117,845	—	117,845	7,260	125,105
Other comprehensive income		—	—	—	18,128	18,128	2,852	20,980
Issue of Units - DRIP		358	—	(358)	—	—	—	—
Issue of Units - debentures converted		23	—	—	—	23	—	23
Distributions		—	—	(16,326)	—	(16,326)	(3,035)	(19,361)
Unitholders' equity, September 30, 2018		$368,309	$48,762	$433,896	$83,045	$934,012	$110,441	$1,044,453
Changes during the period:								
Net income (loss)		—	—	54,380	—	54,380	(4,775)	49,605
Other comprehensive income		—	—	—	35,580	35,580	4,785	40,365
Issue of Units - DRIP		122	—	(122)	—	—	—	—
Distributions		—	—	(5,549)	—	(5,549)	(1,013)	(6,562)
Unitholders' equity, December 31, 2018		**$368,431**	**$48,762**	**$482,605**	**$118,625**	**$1,018,423**	**$109,438**	**$1,127,861**
Changes during the period:								
Net income		**—**	**—**	**42,239**	**—**	**42,239**	**1,992**	**44,231**
Other comprehensive loss		**—**	**—**	**—**	**(20,735)**	**(20,735)**	**(2,632)**	**(23,367)**
Increase in subsidiary ownership interest		**—**	**—**	**—**	**—**	**—**	**(15,497)**	**(15,497)**
Issue of Units	11(d)	**99,591**	**—**	**—**	**—**	**99,591**	**—**	**99,591**
Issue of Units - DRIP	11(d)	**418**	**—**	**(418)**	**—**	**—**	**—**	**—**
Distributions	11(d)	**—**	**—**	**(17,359)**	**—**	**(17,359)**	**(2,648)**	**(20,007)**
Unitholders' equity, September 30, 2019		**$468,440**	**$48,762**	**$507,067**	**$97,890**	**$1,122,159**	**$90,653**	**$1,212,812**

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

	Note	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
OPERATING ACTIVITIES					
Net income (loss)		**($1,407)**	$25,012	**$44,231**	$125,105
Add (deduct) items not affecting cash	17(a)	**16,667**	(10,613)	**442**	(81,032)
Additions to tenant incentives		**(483)**	(437)	**(739)**	(1,840)
Net change in non-cash operating assets and liabilities	17(b)	**(3,636)**	(4,598)	**(6,549)**	(3,589)
Cash provided by operating activities		**11,141**	9,364	**37,385**	38,644
INVESTING ACTIVITIES					
Additions to income producing properties	4	**(8,474)**	(7,239)	**(18,967)**	(17,196)
Additions to property under development	4	**(1,923)**	(401)	**(4,560)**	(458)
Proceeds from sale of income producing properties, net	4	**—**	—	**38,626**	—
Acquisition of property under development		**—**	—	**—**	(14,866)
Cash provided by (used in) investing activities		**(10,397)**	(7,640)	**15,099**	(32,520)
FINANCING ACTIVITIES					
Proceeds from issuance of Units, net of costs	11(d)	**99,591**	—	**99,591**	—
Proceeds from new mortgages		**—**	—	**—**	80,000
Financing cost on new mortgages		**—**	—	**—**	(905)
Repayment of mortgages and Class C LP Units					
Repayments on maturity		**—**	—	**—**	(67,892)
Repayment due to mortgage extinguishment	4	**—**	—	**(11,331)**	—
Principal instalment repayments		**(5,553)**	(5,143)	**(16,778)**	(15,628)
Proceeds from issuance of convertible debentures, net of costs		**—**	—	**—**	82,125
Redemption of convertible debentures		**—**	—	**—**	(59,977)
Increase in subsidiary ownership interest	4	**—**	—	**(8,014)**	—
Repayment of Morguard Facility		**(98,505)**	(3,772)	**(128,796)**	(99,670)
Proceeds from Morguard Facility		**7,500**	12,100	**37,200**	90,793
Distributions to Unitholders		**(5,882)**	(5,421)	**(17,062)**	(16,326)
Distributions to non-controlling interest		**(842)**	(983)	**(2,648)**	(3,035)
Increase in restricted cash		**(1,133)**	(2,258)	**(1,065)**	(2,042)
Cash used in financing activities		**(4,824)**	(5,477)	**(48,903)**	(12,557)
Net increase (decrease) in cash during the period		**(4,080)**	(3,753)	**3,581**	(6,433)
Net effect of foreign currency translation on cash balance		**65**	(30)	**77**	(345)
Cash, beginning of period		**24,459**	22,126	**16,786**	25,121
Cash, end of period		**$20,444**	$18,343	**$20,444**	$18,343

See accompanying notes to the condensed consolidated financial statements.

NOTES

For the three and nine months ended September 30, 2019 and 2018

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 amended and restated on April 18, 2012 (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, 2019, Morguard Corporation ("Morguard"), the parent company of the REIT, holds an indirect 44.8% 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 29, 2019.

These condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies as described in Note 3, and should be read in conjunction with the most recent annual audited consolidated financial statements.

Foreign Exchange

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

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at September 30	**$0.7551**	$0.7725
- As at December 31	—	0.7330
- Average for the three months ended September 30	**0.7573**	0.7651
- Average for the nine months ended September 30	**0.7523**	0.7766
United States dollar to Canadian dollar exchange rates:		
- As at September 30	**1.3243**	1.2945
- As at December 31	—	1.3642
- Average for the three months ended September 30	**1.3204**	1.3070
- Average for the nine months ended September 30	**1.3292**	1.2876

NOTE 3
ADOPTION OF ACCOUNTING STANDARDS
Current Accounting Policy Changes
IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the REIT is the lessor.

The REIT adopted the standard on January 1, 2019, using a modified retrospective approach. The REIT elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The REIT also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

Leases previously classified as finance leases

The REIT did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases

The REIT reviewed all operating lease contracts in which it is a lessee and concluded that all operating leases were either a short-term lease for which the REIT applied the short-term leases exemption to leases having a lease term that ends within 12 months at the date of initial application or low-value asset and therefore had no impact upon adoption.

Summary of new accounting policies that have been applied from the date of initial application

At the commencement date of a lease, the REIT will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Certain right-of-use assets related to land leases meet the definition of investment property under IAS 40, *Investment Property*; therefore, the fair value model is applied to those assets. Interest expense on the lease liability and the fair value gain (loss) on the right-of-use asset is recognized separately.

The REIT measures lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the REIT and payments of penalties for terminating a lease, if the lease term reflects the REIT exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the REIT uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The REIT applies the recognition exemptions for leases of low-value assets and short-term leases.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")
IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, *Income Taxes* ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. IFRIC 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments collectively;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The REIT adopted the interpretation on January 1, 2019. IFRIC 23 did not have a material impact on the REIT's consolidated financial statements.

NOTE 4
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, 2019	December 31, 2018
	Income Producing Properties	Property Under Development	Total	Total
Balance, beginning of period	**$2,916,118**	**$16,717**	**$2,932,835**	$2,570,589
Additions:				
Acquisition of property under development	**—**	**—**	**—**	14,866
Capital expenditures	**18,967**	**—**	**18,967**	28,950
Development expenditures	**—**	**4,560**	**4,560**	1,165
Dispositions	**(63,809)**	**—**	**(63,809)**	—
Fair value gain, net	**68,022**	**—**	**68,022**	180,283
Foreign currency translation	**(49,760)**	**(505)**	**(50,265)**	135,754
Other	**(7,481)**	**—**	**(7,481)**	1,228
Balance, end of period	**$2,882,057**	**$20,772**	**$2,902,829**	$2,932,835

On February 1, 2019, the REIT sold a property located in Shreveport, Louisiana, comprising 194 suites, for gross proceeds of $13,510 (US$10,317), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $6,980 (US$5,330).

On March 19, 2019, the REIT sold a property located in Lafayette, Louisiana, comprising 192 suites, for gross proceeds of $15,062 (US$11,332), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $9,417 (US$7,085).

On March 19, 2019, the REIT sold a property located in New Iberia, Louisiana, comprising 148 suites, for gross proceeds of $8,208 (US$6,175), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $5,934 (US$4,464).

On March 27, 2019, the REIT sold a property located in Gretna, Louisiana, comprising 261 suites, for gross proceeds of $22,601 (US$16,849), including closing costs, and repaid the mortgage secured by the property in the amount of $11,331 (US$8,447).

On April 30, 2019, the REIT sold a property located in Harahan, Louisiana, comprising 48 suites, for gross proceeds of $4,428 (US$3,298), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $2,852 (US$2,125).

On May 22, 2019, the REIT acquired partial interests in three properties controlled by the REIT located in Mississauga, Ontario, for a gross purchase price of $15,628, including closing costs, and the REIT assumed the partial interest of the mortgages secured by the properties amounting to $7,614.

As at September 30, 2019, and December 31, 2018, 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.

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, 2019, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 6.8% (December 31, 2018 - 4.0% to 7.8%), resulting in an overall weighted average capitalization rate of 4.7% (December 31, 2018 - 4.7%).

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, 2019 would decrease by $145,840 or increase by $162,489, respectively.

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

	September 30, 2019 Capitalization Rates			December 31, 2018 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%**	**4.0%**	**4.2%**	4.5%	4.0%	4.2%
United States						
Colorado	**5.3%**	**5.3%**	**5.3%**	5.3%	5.3%	5.3%
Texas	**5.3%**	**5.0%**	**5.1%**	5.3%	5.0%	5.1%
Louisiana	**6.8%**	**5.5%**	**6.0%**	7.8%	5.5%	6.8%
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%	5.0%	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%

NOTE 5

EQUITY-ACCOUNTED INVESTMENT

The REIT owns a 50% interest in a property comprising 492 suites located in Rockville, Maryland, in which the REIT has joint control of the investment and accounts for its investment using the equity method.

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

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	**$40,859**	$37,295
Share of net income	**2,165**	271
Foreign exchange gain (loss)	**(1,213)**	3,293
Balance, end of period	**$41,811**	$40,859

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

As at	September 30, 2019	December 31, 2018
Non-current assets	**$174,954**	$176,118
Current assets	**4,904**	3,863
Total assets	**$179,858**	$179,981
Non-current liabilities	**$93,269**	$95,997
Current liabilities	**2,968**	2,266
Total liabilities	**$96,237**	$98,263
Net assets	**$83,621**	$81,718
Equity-accounted investment	**$41,811**	$40,859

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenue	**$3,331**	$3,284	**$10,152**	$9,786
Expenses	**(2,046)**	(2,270)	**(9,121)**	(8,691)
Fair value gain (loss) on income producing property	**(1,211)**	(968)	**3,298**	723
Net income for the period	**$74**	$46	**$4,329**	$1,818
Income in equity-accounted investment	**$37**	$23	**$2,165**	$909

NOTE 6

MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at	September 30, 2019			December 31, 2018
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,167,865**	**$79,445**	**$1,247,310**	$1,325,810
Deferred financing costs	**(10,987)**	**(561)**	**(11,548)**	(14,423)
Present value of tax payment on Class C LP Units	**—**	**8,857**	**8,857**	8,740
	$1,156,878	**$87,741**	**$1,244,619**	$1,320,127
Current	**$128,105**	**$3,163**	**$131,268**	$124,418
Non-current	**1,028,773**	**84,578**	**1,113,351**	1,195,709
	$1,156,878	**$87,741**	**$1,244,619**	$1,320,127
Range of interest rates	**2.25−4.25%**	**3.97%**	**2.25−4.25%**	2.25−4.25%
Weighted average interest rate	**3.45%**	**3.97%**	**3.49%**	3.49%
Weighted average term to maturity (years)	**5.3**	**1.8**	**5.1**	5.8
Fair value of mortgages and Class C LP Units	**$1,204,473**	**$81,129**	**$1,285,602**	$1,323,506

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.

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

The aggregate principal repayments and balances maturing of the mortgages payable and the Class C LP Units as at September 30, 2019, 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
2019 (remainder of the year)	$5,760	$101,547	$107,307	3.21%
2020	23,562	8,828	32,390	4.25%
2021	24,468	75,280	99,748	3.97%
2022	24,668	69,921	94,589	3.76%
2023	21,715	150,415	172,130	3.47%
Thereafter	40,396	700,750	741,146	3.44%
	$140,569	$1,106,741	$1,247,310	3.49%

NOTE 7
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	September 30, 2019	December 31, 2018
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**5,852**	2,469
Unamortized financing costs	**(2,457)**	(2,923)
	$88,618	$84,769

For the three and nine months ended September 30, 2019, interest on the convertible debentures amounting to $965 (2018 - $980) and $2,878 (2018 - $2,852), respectively, are included in interest expense (Note 13). As at September 30, 2019, $11 (December 31, 2018 - $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, commencing on

September 30, 2018. 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, 2019, and December 31, 2018, $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.

4.65% Convertible Unsecured Subordinated Debentures

On March 15, 2013, the REIT issued $60,000 principal amount of 4.65% convertible unsecured subordinated debentures (the "2013 Debentures") maturing on March 30, 2018. On February 23, 2018, $23 of the 2013 Debentures were converted into 1,483 Units, and on February 26, 2018, the REIT redeemed the remaining $59,977 of its outstanding 2013 Debentures in advance of their March 30, 2018 maturity date.

NOTE 8

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, 2019, 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 $341,878 (December 31, 2018 - $295,376) and a corresponding fair value loss for the three and nine months ended September 30, 2019 of $24,629 (2018 - $16,879) and $46,502 (2018 - $16,879), respectively.

For the three and nine months ended September 30, 2019, distributions on Class B LP Units amounting to $2,924 (2018 - $2,842) and $8,773 (2018 - $8,526), respectively, are included in interest expense (Note 13).

As at September 30, 2019, and December 31, 2018, there were 17,223,090 Class B LP Units issued and outstanding.

NOTE 9
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, 2019, the net amount receivable under the Morguard Facility was $77,699, comprising an amount receivable of US$48,100 and a receivable of $14,000. As at December 31, 2018, the net amount payable under the Morguard Facility was $12,803, comprising an amount receivable of US$22,858 and a payable of $43,986.

During the three and nine months ended September 30, 2019, the REIT earned net interest income of $393 (2018 - $7) and $585 (2018 - $15), respectively, on the Morguard Facility.

NOTE 10
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	**$39,907**	$35,123
Tenant deposits	**11,318**	11,305
Lease liability	**9,469**	9,754
	$60,694	$56,182
Current	**$51,225**	$46,428
Non-current	**9,469**	9,754
	$60,694	$56,182

NOTE 11
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

On December 13, 2018, the REIT obtained the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 2,556,288 Units, being approximately 10% of the public float of outstanding Units; the program expires on December 20, 2019. The daily repurchase restriction for the Units is 6,157. Additionally, the REIT may purchase up to $8,050 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 $12. 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, 2019.

(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, 2017, to September 30, 2019:

Issued and Fully Paid Units	Units	Amount
Balance, December 31, 2017	33,690,613	$367,928
Units issued under the DRIP	30,784	480
2013 Debentures converted	1,483	23
Balance, December 31, 2018	33,722,880	368,431
Issuance of Units for cash, net of costs	**5,226,200**	**99,591**
Units issued under the DRIP	**23,010**	**418**
Balance, September 30, 2019	**38,972,090**	**$468,440**

On August 28, 2019, the REIT completed an offering for 5,226,200 Units sold for a price of $19.75 per Unit for aggregate gross proceeds of $103,217 (the “Offering”). The net proceeds of the Offering, after underwriters’ commission and other closing costs totalling $3,626, was $99,591. Morguard purchased 1,269,000 of the Units offered amounting to $25,063.

Total distributions declared during the nine months ended September 30, 2019, amounted to $17,777, or $0.5094 per Unit (2018 - $16,684, or $0.495 per Unit), including distributions payable of $2,206 that were declared on September 16, 2019, and paid on October 15, 2019. On October 15, 2019, the REIT declared a distribution of $0.0566 per Unit payable on November 15, 2019.

(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, 2019, the REIT issued 23,010 Units under the DRIP (December 31, 2018 - 30,784 Units).

(f) Accumulated Other Comprehensive Income

The accumulated other comprehensive income consists of the following amounts:

As at	September 30, 2019	December 31, 2018
Unrealized foreign currency translation gain	**$97,890**	$118,625
Balance, end of period	**$97,890**	$118,625

NOTE 12
RENTAL INCOME

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Rental income	**$28,613**	$29,762	**$87,540**	$87,939
Property management and ancillary income	**23,248**	23,289	**69,189**	66,899
Property tax and insurance	**9,274**	8,121	**27,624**	24,401
	$61,135	$61,172	**$184,353**	$179,239

NOTE 13
INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Interest on mortgages	**$10,179**	$10,591	**$30,823**	$31,260
Interest and tax payment on Class C LP Units	**955**	964	**2,838**	2,898
Interest on the convertible debentures (Note 7)	**965**	980	**2,878**	2,852
Interest on lease liability	**99**	98	**299**	290
Amortization of mark-to-market adjustment on mortgages	**—**	—	**—**	(443)
Amortization of deferred financing costs	**679**	741	**2,103**	2,233
Amortization of deferred financing costs on the convertible debentures	**156**	148	**466**	433
Fair value loss on conversion option on the convertible debentures	**2,157**	596	**3,383**	470
Loss on extinguishment of mortgages payable	**—**	—	**561**	—
	15,190	14,118	**43,351**	39,993
Distributions on Class B LP Units (Note 8)	**2,924**	2,842	**8,773**	8,526
	$18,114	$16,960	**$52,124**	$48,519

NOTE 14
TRUST EXPENSES

The components of trust expenses are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Asset management fees and distributions	**$2,982**	$2,828	**$8,816**	$8,335
Professional fees	**196**	279	**828**	918
Public company expenses	**174**	132	**539**	476
Other	**81**	148	**450**	510
	$3,433	$3,387	**$10,633**	$10,239

NOTE 15
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 6, 7, 8, 9 and 11(d), 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, 2019 amounted to $2,135 (2018 - $2,120) and $6,449 (2018 - $6,252), respectively, and are included in property operating costs and equity income from investment. As at September 30, 2019, $625 (December 31, 2018 - $654) 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, 2019 amounted to $3,037 (2018 - $2,882) and $8,980 (2018 - $8,493), respectively, are included in trust expenses and equity income from investment. As at September 30, 2019, $4,325 (December 31, 2018 - $5,469) 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. Fees relating to acquisition services for the three and nine months ended September 30, 2019 amounted to $nil (2018 - $nil) and $nil (2018 - $110), respectively.

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, 2019 amounted to $nil (2018 - $nil) and $nil (2018 - $121), 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, 2019, amounted to $17 (2018 - $nil) and $49 (2018 - $nil), respectively, and are included in property under development. As at September 30, 2019, $13 (December 31, 2018 - $nil) is included in accounts payable and accrued liabilities.

Other Services
As at September 30, 2019, 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, 2019 amounted to $53 (2018 - $58) and $163 (2018 - $174), respectively, and are included in trust expenses.

NOTE 16
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, 2019, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$36,189 (December 31, 2018 - US$30,075) 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, 2019, the REIT's U.S. subsidiaries have a total of US$8,885 (December 31, 2018 - US$8,172) of unutilized interest expense deductions of which deferred tax assets were recognized.

NOTE 17
CONSOLIDATED STATEMENTS OF CASH FLOWS
(a) Items Not Affecting Cash

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Fair value gain on real estate properties, net	**($15,076)**	($32,895)	**($62,580)**	($129,093)
Fair value loss on Class B LP Units	**24,629**	16,879	**46,502**	16,879
Fair value loss on conversion option on the convertible debentures	**2,157**	596	**3,383**	470
Equity income from investment	**(37)**	(23)	**(2,165)**	(909)
Amortization of deferred financing - mortgages	**604**	668	**1,877**	2,009
Amortization of deferred financing - Class C LP Units	**75**	73	**226**	224
Amortization of deferred financing - convertible debentures	**156**	148	**466**	433
Present value adjustment of tax liability on Class C LP Units	**143**	138	**424**	414
Amortization of mark-to-market adjustment on mortgages	**—**	—	**—**	(443)
Loss on extinguishment of mortgages payable	**—**	—	**561**	—
Amortization of tenant incentives	**215**	296	**737**	586
Deferred income taxes	**3,801**	3,507	**11,011**	28,398
	$16,667	($10,613)	**$442**	($81,032)

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Amounts receivable	**$17**	$799	**$175**	$2,757
Prepaid expenses	**(2,473)**	(4,202)	**(6,478)**	(3,861)
Accounts payable and accrued liabilities	**(1,180)**	(1,195)	**(246)**	(2,485)
	($3,636)	($4,598)	**($6,549)**	($3,589)

(c) Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Interest paid	**$12,899**	$13,886	**$37,401**	$37,197

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

As at September 30, 2019	Mortgages Payable and Class C LP Units	Convertible Debentures	Morguard Facility	Lease Liability	Total
Balance, beginning of period	$1,320,127	$84,769	$12,803	$9,754	$1,427,453
Repayments	(16,778)	—	(128,796)	—	(145,574)
New financing, net	—	—	37,200	—	37,200
Lump-sum repayments	(11,331)	—	—	—	(11,331)
Non-cash changes	(22,095)	3,849	—	—	(18,246)
Foreign exchange	(25,304)	—	1,094	(285)	(24,495)
Balance, end of period	**$1,244,619**	**$88,618**	**($77,699)**	**$9,469**	**$1,265,007**

NOTE 18
MANAGEMENT OF CAPITAL

Refer to the REIT's audited consolidated financial statements as at and for the year ended December 31, 2018 for an explanation of the REIT's capital management policy.

The total managed capital for the REIT as at September 30, 2019, and December 31, 2018, is summarized below:

As at	September 30, 2019	December 31, 2018
Mortgages payable, principal balance	**$1,167,865**	$1,243,887
Class C LP Units and present value of tax payment, principal balance	**88,302**	90,663
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**—**	12,803
Lease liability	**9,469**	9,754
Class B LP Units	**341,878**	295,376
Unitholders' equity	**1,122,159**	1,018,423
	$2,815,173	$2,756,406

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, 2019	December 31, 2018
Total debt to gross book value	70%	**44.0%**	47.9%
Floating-rate debt to gross book value	20%	**—%**	0.4%

NOTE 19
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer to the REIT's audited consolidated financial statements as at and for the year ended December 31, 2018 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, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, as at September 30, 2019, 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 $1,204,473 and $81,129, (December 31, 2018 - $1,239,641 and $83,865), 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 values of the convertible debentures are based on their market trading price (Level 1). As at September 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $88,946 (December 31, 2018 - $85,500), compared with the carrying value of $85,223 (December 31, 2018 - $85,223).

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

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, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$2,902,829**	$—	$—	$2,932,835
Financial liabilities:						
Class B LP Units	**341,878**	**—**	**—**	295,376	—	—
Conversion option of the convertible debentures	**—**	**5,852**	**—**	—	2,469	—

The REIT's convertible debentures have no restrictive covenants.

NOTE 20

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, 2019			Three months ended September 30, 2018		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Revenue from income producing properties	**$23,468**	**$37,667**	**$61,135**	$22,480	$38,692	$61,172
Property operating expenses	**(9,929)**	**(13,168)**	**(23,097)**	(9,378)	(13,611)	(22,989)
Net operating income	**$13,539**	**$24,499**	**$38,038**	$13,102	$25,081	$38,183

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Revenue from real estate properties	**$69,565**	**$114,788**	**$184,353**	$67,009	$112,230	$179,239
Property operating expenses	**(30,055)**	**(60,434)**	**(90,489)**	(28,858)	(56,765)	(85,623)
Net operating income	**$39,510**	**$54,354**	**$93,864**	$38,151	$55,465	$93,616

	September 30, 2019			December 31, 2018		
As at	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Real estate properties	**$1,258,560**	**$1,644,269**	**$2,902,829**	$1,209,490	$1,723,345	$2,932,835
Mortgages payable and Class C LP Units	**$438,425**	**$806,194**	**$1,244,619**	$449,225	$870,902	$1,320,127

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Additions to real estate properties	**$4,096**	**$6,301**	**$10,397**	$3,106	$4,534	$7,640
Fair value gain on real estate properties	**$6,059**	**$3,783**	**$9,842**	$17,786	$10,240	$28,026

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Additions to real estate properties	**$7,073**	**$16,454**	**$23,527**	$6,347	$26,173	$32,520
Fair value gain on real estate properties	**$49,425**	**$19,002**	**$68,427**	$41,682	$92,172	$133,854

NOTE 21
SUBSEQUENT EVENT

On October 1, 2019, the REIT completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,304 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.