MORGUARD NORTH AMERICAN
RESIDENTIAL REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONSOLIDATED FINANCIAL STATEMENTS

FOURTH QUARTER 2018

ACTIVE PORTFOLIO MANAGEMENT.
ENHANCED RETURNS.

Morguard

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

TABLE OF CONTENTS

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 year ended December 31, 2018. 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 year ended December 31, 2018, 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 audited consolidated financial statements and accompanying notes for the years ended December 31, 2018 and 2017. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 12, 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 NET OPERATING INCOME ("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. 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 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 (loss) from investment in the consolidated statements of income, 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 is provided below.

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 is provided below.

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.

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.

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 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 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 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 and has been adjusted on a proportionately owned basis to each respective financial statement line presented within the balance sheet and statements of income. 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.

The REIT's financial results on a Proportionate Basis are as follows:

THE REIT'S PROPORTIONATE CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

		Non-IFRS Adjustments		
As at December 31, 2018	IFRS	NCI Share	Equity Interest	Proportionate Basis (Non-IFRS)
ASSETS				
Non-current assets				
Real estate properties	$2,932,835	($222,238)	$88,059	$2,798,656
Equity-accounted investment	40,859	—	(40,859)	—
	2,973,694	(222,238)	47,200	2,798,656
Current assets				
Amounts receivable	3,652	(222)	184	3,614
Prepaid expenses	4,164	(121)	569	4,612
Restricted cash	13,173	(99)	684	13,758
Cash	16,786	(2,412)	495	14,869
	37,775	(2,854)	1,932	36,853
	$3,011,469	($225,092)	$49,132	$2,835,509
LIABILITIES AND EQUITY				
Non-current liabilities				
Mortgages payable and Class C LP Units	$1,195,709	($110,639)	$47,999	$1,133,069
Convertible debentures	84,769	—	—	84,769
Class B LP Units	295,376	—	—	295,376
Deferred income tax liabilities	114,351	—	—	114,351
Accounts payable and accrued liabilities	9,754	—	—	9,754
	1,699,959	(110,639)	47,999	1,637,319
Current liabilities				
Mortgages payable and Class C LP Units	124,418	(242)	—	124,176
Morguard Facility	12,803	—	—	12,803
Accounts payable and accrued liabilities	46,428	(4,773)	1,133	42,788
	183,649	(5,015)	1,133	179,767
Total liabilities	1,883,608	(115,654)	49,132	1,817,086
EQUITY				
Unitholders' equity	1,018,423	—	—	1,018,423
Non-controlling interest	109,438	(109,438)	—	—
Total equity	1,127,861	(109,438)	—	1,018,423
	$3,011,469	($225,092)	$49,132	$2,835,509

STATEMENTS OF INCOME

	2018				2017				
		Non-IFRS Adjustments				Non-IFRS Adjustments			
For the years ended December 31 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
Revenue from properties									
Same Property	**$215,114**	**($5,447)**	**$—**	**$209,667**	$207,519	($5,285)	$—	$—	$202,234
Acquisitions / Dispositions	**26,254**	**(10,030)**	**6,590**	**22,814**	18,976	(2,093)	2,431	—	19,314
Total revenue from properties	**241,368**	**(15,477)**	**6,590**	**232,481**	226,495	(7,378)	2,431	—	221,548
Property operating expenses									
Same Property									
Operating costs	**54,537**	**(1,166)**	**—**	**53,371**	52,822	(1,178)	—	—	51,644
Realty taxes	**26,838**	**(934)**	**—**	**25,904**	25,489	(909)	—	—	24,580
Utilities	**17,299**	**(342)**	**—**	**16,957**	17,282	(363)	—	—	16,919
Same Property	**98,674**	**(2,442)**	**—**	**96,232**	95,593	(2,450)	—	—	93,143
Acquisitions / Dispositions	**11,001**	**(4,154)**	**3,613**	**10,460**	8,166	(516)	732	1,053	9,435
Total property operating expenses	**109,675**	**(6,596)**	**3,613**	**106,692**	103,759	(2,966)	732	1,053	102,578
NOI									
Same Property	**116,440**	**(3,005)**	**—**	**113,435**	111,926	(2,835)	—	—	109,091
Acquisitions / Dispositions	**15,253**	**(5,876)**	**2,977**	**12,354**	10,810	(1,577)	1,699	(1,053)	9,879
Total NOI(1)	**131,693**	**(8,881)**	**2,977**	**125,789**	122,736	(4,412)	1,699	(1,053)	118,970
Other expenses (income)									
Interest expense	**66,083**	**(3,923)**	**1,708**	**63,868**	58,497	(1,845)	617	—	57,269
Trust expenses	**13,765**	**(272)**	**215**	**13,708**	12,618	(126)	87	—	12,579
Equity loss (income) from investment	**(271)**	**—**	**271**	**—**	1,169	—	(1,169)	—	—
Foreign exchange loss (gain)	**(2,280)**	**—**	**—**	**(2,280)**	1,570	—	—	—	1,570
Other expenses (income)	**(65)**	**—**	**—**	**(65)**	529	—	—	—	529
Income before fair value changes and income taxes	**54,461**	**(4,686)**	**783**	**50,558**	48,353	(2,441)	2,164	(1,053)	47,023
Fair value gain on real estate properties, net	**180,283**	**2,201**	**(783)**	**181,701**	129,543	(10,253)	(2,164)	1,053	118,179
Fair value loss on Class B LP Units	**(36,513)**	**—**	**—**	**(36,513)**	(24,285)	—	—	—	(24,285)
Income before income taxes	**198,231**	**(2,485)**	**—**	**195,746**	153,611	(12,694)	—	—	140,917
Provision for (recovery of) income taxes									
Current	**233**	**—**	**—**	**233**	826	—	—	—	826
Deferred	**23,288**	**—**	**—**	**23,288**	(20,346)	—	—	—	(20,346)
	23,521	**—**	**—**	**23,521**	(19,520)	—	—	—	(19,520)
Net income for the year	**$174,710**	**($2,485)**	**$—**	**$172,225**	$173,131	($12,694)	$—	$—	$160,437
(1) NOI included the following:									
IFRIC 21	$—	$—	$—	$—	($941)	$280	($392)	$1,053	$—

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

CONVERTIBLE DEBENTURE ISSUANCE

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. On February 21, 2018, an additional principal amount of $10,500 was issued pursuant to the exercise of the over-allotment option. Morguard acquired $5,000 aggregate principal amount of the 2018 Debentures.

CONVERTIBLE DEBENTURE REDEMPTION

On February 26, 2018, the REIT redeemed the remaining $59,977 of its outstanding 4.65% convertible unsecured subordinated debentures (the "2013 Debentures") in advance of their March 30, 2018 maturity date.

ACQUISITION

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 2019, at which point initial lease-up will commence. The newly acquired property, located in the Garden District, is within close proximity to The Georgian, the REIT's 135 suite mid-rise apartment complex and nearby Tulane and Loyola universities. The acquisition allows the REIT to increase its presence in the immediate area and to benefit from management efficiencies between the two properties.

DISTRIBUTIONS

On October 30, 2018, the REIT announced an increase to its monthly cash distributions to $0.0566 per Unit, representing $0.68 per Unit on an annualized basis. The increase became effective for the November 2018 distribution, and was paid on December 14, 2018 to Unitholders of record as at November 30, 2018 and represents a 3.0% increase from the REIT's $0.66 per Unit annualized distribution.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at December 31 (In thousands of dollars, except as noted otherwise)	2018	2017
Operational Information		
Number of properties	**47**	46
Total suites	**13,430**	13,314
Occupancy percentage - Canada	**99.1%**	99.3%
Occupancy percentage - U.S.	**94.7%**	90.9%
AMR - Canada (in actual dollars)	**$1,373**	$1,327
AMR - U.S. (in actual US dollars)	**US$1,236**	US$1,203
Summary of Financial Information		
Gross book value(1)	**$3,011,469**	$2,651,097
Indebtedness(2)	**$1,442,607**	$1,363,228
Indebtedness to gross book value ratio	**47.9%**	51.4%
Weighted average mortgage interest rate(3)	**3.49%**	3.50%
Weighted average term to maturity on mortgages payable (years)	**5.8**	6.2
Exchange rates - United States dollar to Canadian dollar	**$1.36**	$1.25
Exchange rates - Canadian dollar to United States dollar	**$0.73**	$0.80

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

(2) Indebtedness (as defined in the Declaration of Trust) represents the outstanding principal amount of mortgages payable, Class C LP Units (including the present value of tax payment), convertible debentures, borrowings from the Morguard Facility (defined below) and finance lease obligation.

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

For the years ended December 31 (In thousands of dollars, except per Unit amounts)	2018	2017
Summary of Financial Information		
Interest coverage ratio(1)	**2.20**	2.19
Indebtedness coverage ratio(2)	**1.58**	1.54
Revenue from real estate properties	**$241,368**	$226,495
NOI	**$131,693**	$122,736
Proportionate NOI	**$125,789**	$118,970
Same Property Proportionate NOI	**$113,435**	$109,091
NOI margin - IFRS	**54.6%**	54.2%
NOI margin - Proportionate	**54.1%**	53.7%
Net income	**$174,710**	$173,131
FFO - basic	**$61,161**	$59,725
FFO - diluted	**$64,983**	$62,515
FFO per Unit - basic	**$1.20**	$1.18
FFO per Unit - diluted	**$1.18**	$1.14
Distributions per Unit	**$0.66**	$0.64
FFO payout ratio	**55.2%**	54.7%
Weighted average number of Units outstanding (in thousands):		
Basic(3)	**50,930**	50,802
Diluted(3) (4)	**55,247**	54,673
Average exchange rates - United States dollar to Canadian dollar	**$1.30**	$1.30
Average exchange rates - Canadian dollar to United States dollar	**$0.77**	$0.77

(1) Interest coverage ratio is defined as net income 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 (which are adjusted on a *pro rata* basis over the entire fiscal year), 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.

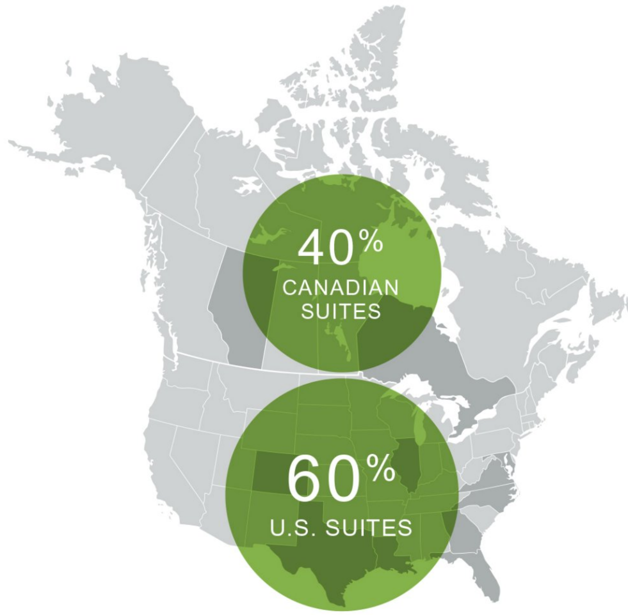
(2) Indebtedness coverage ratio is defined as net income before equity income (loss) from investment, interest expense, income taxes, fair value adjustments, foreign exchange loss (gain), and the impact of realty taxes accounted for under IFRIC 21 (which are adjusted on a *pro rata* basis over the entire fiscal year), 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.

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

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

REAL ESTATE PROPERTIES

As at December 31, 2018, the REIT's multi-suite residential property portfolio consists of 16 Canadian properties and 31 U.S. properties (including one property under development), having a total of 13,430 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 December 31, 2018:

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	2.1%	$61,000
Ontario				
Mississauga	7	2,219	16.5%	609,020
Toronto	6	1,997	14.9%	353,470
Other(2)	2	842	6.2%	186,000
	16	**5,335**	**39.7%**	**$1,209,490**
U.S. Properties				
Colorado	2	454	3.4%	$127,689
Texas	3	1,021	7.6%	218,136
Louisiana	7	1,122	8.3%	108,454
Illinois	1	515	3.8%	310,219
Georgia	3	814	6.1%	164,986
Florida	10	2,593	19.3%	536,622
North Carolina	2	864	6.4%	173,540
Virginia	1	104	0.8%	66,982
Maryland	1	492	3.7%	176,118
	30	**7,979**	**59.4%**	**$1,882,746**
Total before property under development	**46**	**13,314**	**99.1%**	**$3,092,236**
Property under development(3)	1	116	0.9%	16,717
Total	**47**	**13,430**	**100.0%**	**$3,108,953**

(1) Total suites and fair value of real estate properties include non-controlling interest; the REIT, on a proportionate basis, has ownership of 12,674 suites. Fair value of real estate properties represents the sum of income producing properties ($2,932,835) and the REIT's equity-accounted investment property ($176,118) 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 2019.

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 December 31, 2018	AMR/Suite at December 31, 2017	% Change	Occupancy at December 31, 2018	Occupancy at December 31, 2017
Canadian Properties (in Canadian dollars)					
Alberta	**$1,380**	$1,363	**1.2%**	**98.9%**	97.1%
Ontario					
Mississauga	**1,516**	1,456	**4.1%**	**99.0%**	99.7%
Toronto	**1,244**	1,208	**3.0%**	**99.2%**	99.0%
Other[1]	**1,310**	1,267	**3.4%**	**99.5%**	99.5%
Total Ontario	**1,373**	1,325	**3.6%**	**99.1%**	99.4%
Total Canada (in Canadian dollars)	**1,373**	1,327	**3.5%**	**99.1%**	99.3%
U.S. Properties (in US dollars)					
Colorado	**1,353**	1,291	**4.8%**	**96.5%**	86.6%
Texas	**1,268**	1,247	**1.7%**	**95.9%**	91.9%
Louisiana	**868**	858	**1.2%**	**91.7%**	90.0%
Illinois	**2,361**	2,359	**0.1%**	**93.6%**	82.9%
Georgia	**1,212**	1,166	**3.9%**	**95.5%**	85.9%
Florida	**1,226**	1,177	**4.2%**	**95.4%**	94.5%
North Carolina	**1,044**	1,025	**1.9%**	**95.8%**	91.5%
Virginia	**2,109**	2,165	**(2.6%)**	**90.4%**	83.7%
Maryland	**1,860**	1,809	**2.8%**	**88.0%**	90.2%
Total U.S. (in US dollars)	**1,236**	1,203	**2.7%**	**94.7%**	90.9%
Total (in local currencies)	**$1,293**	$1,254	**3.1%**	**96.5%**	94.4%

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

As at December 31, 2018, AMR per suite in Canada increased by 3.5% compared to December 31, 2017, mainly due to rental rate increases in line with the Ontario guideline rate in 2018 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 year ended December 31, 2018, the REIT’s Canadian portfolio turned over 891 suites, or 16.9% of total suites located in Canada and achieved AMR growth of 11.0% on suite turnover.

As at December 31, 2018, occupancy in Canada is 99.1%, compared to 99.3% at December 31, 2017, reflecting strong and stable demand predominantly in Ontario.

As at December 31, 2018, AMR per suite in the U.S. increased by 2.7% compared to December 31, 2017, mainly due to rental rate increases in 2018 along with an increase in demand during the summer months where turnover is seasonally higher. The REIT had AMR growth in all of U.S. regions, except for the REIT’s single property in Virginia, attributable to stabilizing market conditions going into the winter season as well as the use of sophisticated revenue management software in place that allows management to analyze real-time market trends and adjust rents accordingly.

As at December 31, 2018, occupancy in the U.S. increased to 94.7% compared to 90.9% at December 31, 2017, an increase in all U.S. regions except for Maryland, which is impacted by new supply and leasing seasonality discussed below. The REIT's occupancy within Colorado, Georgia, Illinois and Virginia improved sharply compared to December 31, 2017, resulting from increased marketing efforts in the spring leasing season that came to fruition over the summer months. The REIT also maintained AMR growth within each respective sub-market as occupancies improved. We expect current occupancy levels to continue to improve in Louisiana, North Carolina and Maryland as management continues to focus on its leasing efforts and resident retention.

Sequentially, occupancy in the U.S. increased from 93.5% as at September 30, 2018. During the second half of 2018, overall occupancy has been trending toward historical averages as current economic conditions have improved but weaknesses remain in oil-driven markets such as Louisiana, an increase in demand for single-family homes impacting certain properties, as well as an increase of new supply currently in lease-up within certain of the REIT's immediate sub-markets, particularly in Maryland. The competitive product is currently offering free rent concessions which is having an impact on renewals.

During the year ended December 31, 2018, the REIT's rental incentives amounted to $2,120 (2017 - $250), 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 provides the occupancy and leased status as at December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018 at U.S. properties acquired by the REIT during the third quarter of 2017:

		Occupancy at				Leased at			
Property	No. of Suites	**Dec 31, 2018**	Sept 30, 2018	June 30, 2018	Mar 31, 2018	**Dec 31, 2018**	Sept 30, 2018	June 30, 2018	Mar 31, 2018
Coast at Lakeshore East, Chicago, IL	515	**93.6%**	94.4%	95.0%	88.2%	**95.5%**	96.7%	97.9%	98.8%
Northgate at Falls Church, Falls Church, VA	104	**90.4%**	90.4%	96.2%	86.5%	**94.2%**	94.2%	96.2%	87.5%
The Fenestra, Rockville, MD	492	**88.0%**	90.7%	89.2%	87.4%	**89.0%**	93.3%	91.5%	88.6%

Occupancy levels at U.S. properties acquired by the REIT during 2017 were also impacted by new supply and leasing seasonality, particularly in Maryland. Management has seen recent improvement and expects these impacts to be short-term in nature as the competitive properties complete their initial lease-up. All three properties improved occupancy since the first quarter of 2018 as significant improvement in traffic and leasing activity continued throughout the key leasing season at these properties.

As of December 31, 2018, Coast at Lakeshore East was occupied at 93.6%, although the Chicago market remains highly competitive with significant new supply delivered to the sub-market. During 2018, leasing stabilized and is 95.5% leased as at December 31, 2018, reflecting an aggressive leasing and marketing strategy as well as improved services and specific common area improvements which enhanced asset performance.

PART III

REVIEW OF OPERATIONAL RESULTS

The REIT's operational results are summarized below:

For the years ended December 31 (In thousands of dollars)	2018	2017
Revenue from real estate properties	**$241,368**	$226,495
Property operating expenses		
Property operating costs	**(61,099)**	(59,370)
Realty taxes	**(30,199)**	(26,370)
Utilities	**(18,377)**	(18,019)
Net operating income	**131,693**	122,736
Other expenses (income)		
Interest expense	**66,083**	58,497
Trust expenses	**13,765**	12,618
Equity loss (income) from investment	**(271)**	1,169
Foreign exchange loss (gain)	**(2,280)**	1,570
Other expense (income)	**(65)**	529
Income before fair value changes and income taxes	**54,461**	48,353
Fair value gain on real estate properties, net	**180,283**	129,543
Fair value loss on Class B LP Units	**(36,513)**	(24,285)
Income before income taxes	**198,231**	153,611
Provision for (recovery of) income taxes		
Current	**233**	826
Deferred	**23,288**	(20,346)
	23,521	(19,520)
Net income for the year	**$174,710**	$173,131
Net income attributable to:		
Unitholders	**$172,225**	$160,437
Non-controlling interest	**2,485**	12,694
	$174,710	$173,131

REVENUE FROM REAL ESTATE PROPERTIES

Higher rental revenue for the year ended December 31, 2018 is mainly due to rental rate increases, the full period impact of acquisitions and foreign exchange fluctuations, partly offset by dispositions during 2017.

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 year ended December 31, 2018, 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 year ended December 31, 2018, measures the operating performance for properties owned and have reached stabilization by the REIT continuously since January 1, 2017, and excludes the following properties: i) Downsview Park Townhomes, Toronto, Ontario, acquired on May 15, 2017 and reached stabilized occupancy on December 31, 2017; ii) Northgate at Falls Church, Falls Church, Virginia, acquired on July 6, 2017; iii) Coast at Lakeshore East, Chicago, Illinois, acquired on July 10, 2017; iv) The Fenestra, Rockville, Maryland, acquired on August 17, 2017; v) the four properties in Mobile, Alabama disposed on July 12, 2017; and vi) Papillon Apartments, New Orleans, Louisiana, acquired April 5, 2018, classified as property under development. Same Property results for this period represents 12,143 residential suites.

Net Operating Income

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

For the years ended December 31 (In thousands of dollars)	2018 NOI	2018 Proportionate NOI	2017 NOI	2017 Proportionate NOI
Revenue from properties				
Same Property	**$215,114**	**$209,667**	$207,519	$202,234
Acquisitions / Dispositions	**26,254**	**22,814**	18,976	19,314
Total revenue from properties	**241,368**	**232,481**	226,495	221,548
Property operating expenses				
Same Property				
Operating costs	**54,537**	**53,371**	52,822	51,644
Realty taxes	**26,838**	**25,904**	25,489	24,580
Utilities	**17,299**	**16,957**	17,282	16,919
Same Property	**98,674**	**96,232**	95,593	93,143
Acquisitions / Dispositions	**11,001**	**10,460**	8,166	9,435
Total property operating expenses	**109,675**	**106,692**	103,759	102,578
NOI				
Total Same Property (local currency)	**116,440**	**113,435**	111,926	109,091
Acquisitions / Dispositions (local currency)	**15,253**	**12,354**	10,810	9,879
Total NOI	**$131,693**	**$125,789**	$122,736	$118,970
NOI margin	**54.6%**	**54.1%**	54.2%	53.7%

For the year ended December 31, 2018, NOI from the REIT's properties increased by $8,957 (or 7.3%) to $131,693, compared to $122,736 in 2017. The increase in NOI is due to an increase in Same Property NOI of $4,514 (or 4.0%) and an increase from acquisitions net of dispositions of properties of $4,443. The Same Property increase of $4,514 is due to an increase in Canada of $2,745 (or 5.7%), an increase in the U.S. of US$1,473 (or 3.0%) and the change in foreign exchange rate which increased NOI by $296.

For the year ended December 31, 2018, Proportionate NOI from the REIT's properties increased by $6,819 (or 5.7%) to $125,789, compared to $118,970 in 2017. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $4,344 (or 4.0%) and an increase from acquisitions net of the disposal of properties of $2,475. The Same Property increase of $4,344 is due to an increase in Canada of $2,655 (or 5.7%), an increase in the U.S. of US$1,411 (or 2.9%) and the change in foreign exchange rate which increased Proportionate NOI by $278.

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

For the years ended December 31 (In thousands of dollars)	2018 NOI	2018 Proportionate NOI	2017 NOI	2017 Proportionate NOI
Same Property NOI - Canada (local currency)	**$50,754**	**$49,513**	$48,009	$46,858
Same Property NOI - U.S. (local currency)	**50,684**	**49,323**	49,211	47,912
Acquisitions / Dispositions (local currency)	**11,939**	**9,702**	8,402	7,665
Exchange amount to Canadian dollars	**18,316**	**17,251**	17,114	16,535
Total NOI	**$131,693**	**$125,789**	$122,736	$118,970

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

For the years ended December 31 (In thousands of dollars)	2018 NOI	2018 Proportionate NOI	2017 NOI	2017 Proportionate NOI
Revenue from properties				
Same Property	**$88,742**	**$86,749**	$86,043	$84,123
Acquisitions	**1,069**	**1,069**	212	212
Total revenue from properties	**89,811**	**87,818**	86,255	84,335
Property operating expenses				
Same Property				
Operating costs	**17,619**	**17,293**	17,356	17,010
Realty taxes	**9,606**	**9,381**	9,568	9,359
Utilities	**10,763**	**10,562**	11,110	10,896
Same Property	**37,988**	**37,236**	38,034	37,265
Acquisitions	**330**	**330**	201	201
Total property operating expenses	**38,318**	**37,566**	38,235	37,466
NOI				
Same Property	**50,754**	**49,513**	48,009	46,858
Acquisitions	**739**	**739**	11	11
Total NOI	**$51,493**	**$50,252**	$48,020	$46,869
NOI margin	**57.3%**	**57.2%**	55.7%	55.6%

For the year ended December 31, 2018, NOI from the Canadian properties increased by $3,473 (or 7.2%) to $51,493, compared to $48,020 in 2017. The increase in NOI is due to an increase in Same Property NOI of $2,745 (or 5.7%) and an increase of $728 from acquisitions. The Same Property increase was due to an increase in rental revenue of $2,699 (or 3.1%), from higher AMR (3.5%) and a decrease in expense of $46 (or 0.1%). The decrease in expense of $46 was from lower utilities of $347 (or 3.1%) due to a decrease in hydro rates (discussed below) and lower consumption from the positive impact of the REIT's energy initiatives and sub-metering programs, partially offset by an increase in operating costs of $263 (or 1.5%) and realty taxes of $38 (net of a $216 tax refund resulting from a successful tax appeal at one property).

For the year ended December 31, 2018, Proportionate NOI from the Canadian properties increased by $3,383 (or 7.2%) to $50,252, compared to $46,869 in 2017. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $2,655 (or 5.7%) and an increase of $728 from acquisitions. The Same Property increase was due to an increase in rental revenue of $2,626 (or 3.1%), from higher AMR (3.5%) and a decrease in expense of $29 (or 0.1%). The decrease in expense of $29 was from lower utilities of $334 (or 3.1%) due to a decrease in hydro rates (discussed below) and lower consumption from the positive impact of the REIT's energy initiatives and sub-metering programs, partially offset by an increase in operating cost of $283 (or 1.7%) and realty taxes of $22 (net of a $216 tax refund resulting from a successful tax appeal at one property).

The REIT's Canadian NOI margin and Proportionate NOI margin were 57.3% and 57.2%, respectively, for the year ended December 31, 2018, compared to 55.7% and 55.6%, respectively, for the year ended December 31, 2017. Overall, as noted above, higher AMR led to an increase in revenue; as well, a decrease in operating expenses due to lower utilities contributed to the higher NOI margin.

For the year ended December 31, 2018, utilities decreased by approximately 3.0% compared to the same period in 2017. The decrease was due to the *Fair Hydro Act, 2017* passed by the former Ontario government that came into effect on June 1, 2017. The legislation puts in place the framework for giving effect to the Fair Hydro Plan initiatives the government has stated will:

- lower electricity bills by 25% on average for all residential customers;
- hold increases to the rate of inflation for four years; and
- remove the cost of certain electricity-related relief programs from electricity bills, and instead fund those programs through taxes.

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

For the years ended December 31 (In thousands of U.S. dollars, unless stated otherwise)	2018 NOI	2018 Proportionate NOI	2017 NOI	2017 Proportionate NOI
Revenue from properties				
Same Property	**$97,470**	**$94,805**	$93,565	$90,972
Acquisitions / Dispositions	**19,423**	**16,773**	14,539	14,820
Total revenue from properties	**116,893**	**111,578**	108,104	105,792
Property operating expenses				
Same Property				
Operating costs	**28,463**	**27,816**	27,339	26,699
Realty taxes	**13,281**	**12,733**	12,257	11,718
Utilities	**5,042**	**4,933**	4,758	4,643
Same Property	**46,786**	**45,482**	44,354	43,060
Acquisitions / Dispositions	**8,223**	**7,810**	6,148	7,166
Total property operating expenses	**55,009**	**53,292**	50,502	50,226
NOI (in US dollars)				
Same Property	**50,684**	**49,323**	49,211	47,912
Acquisitions / Dispositions	**11,200**	**8,963**	8,391	7,654
Total NOI (in US dollars)	**61,884**	**58,286**	57,602	55,566
Exchange amount to Canadian dollars	**18,316**	**17,251**	17,114	16,535
NOI (in Canadian dollars)	**$80,200**	**$75,537**	$74,716	$72,101
NOI margin (in US dollars)	**52.9%**	**52.2%**	53.3%	52.5%

For the year ended December 31, 2018, NOI from the U.S. properties increased by $5,484 (or 7.3%) to $80,200, compared to $74,716 in 2017. The increase in NOI is due to an increase from acquisitions net of dispositions of properties of US$2,809, an increase in Same Property NOI of US$1,473 (or 3.0%) and the change in foreign exchange rate which increased NOI by $1,202. The Same Property increase was due to an increase in rental revenue of US$3,905 (or 4.2%), from higher AMR (2.7%) and increased occupancy, partially offset by an increase in expense of US$2,432 (or 5.5%) mainly from an increase in operating costs, utilities and realty taxes. The increase in realty taxes of $1,024 (or 8.4%) is due to an increase in assessed market value at certain properties. Higher utilities and suite turnover expenses resulted from an increase in the number of turnovers as well as increased leasing activities.

For the year ended December 31, 2018, Proportionate NOI from the U.S. properties increased by $3,436 (or 4.8%) to $75,537, compared to $72,101 in 2017. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of US$1,411 (or 2.9%), an increase from acquisitions net of the disposal of properties of US$1,309 and the change in foreign exchange rate which increased NOI by $716. The Same Property increase was mainly due to an increase in rental revenue of US$3,833 (or 4.2%), from higher AMR (2.7%) and increased occupancy, partially offset by an increase in expense of US$2,422 (or 5.6%) mainly from an increase in operating costs, utilities and realty taxes. The increase in realty taxes of $1,015 (or 8.7%) is due to an increase in assessed market value at certain properties. Higher utilities and suite turnover expenses resulted from an increase in the number of turnovers as well as increased leasing activities.

The REIT's U.S. NOI margin and Proportionate NOI margin were 52.9% and 52.2%, respectively, for the year ended December 31, 2018, compared to 53.3% and 52.5%, respectively, for the year ended December 31, 2017. The NOI margin was impacted by accounting for realty taxes under IFRIC 21 in 2017 from U.S. acquisitions in which realty taxes are not recorded in the year of acquisition as well as an increase in realty tax expense during 2018. The Proportionate NOI margin for the year ended December 31, 2018 decreased compared to 2017, due to a decrease in the Same Property portfolio, partly offset the positive impact of property acquisitions net of property dispositions.

INTEREST EXPENSE

Interest expense consists of the following:

For the years ended December 31 (In thousands of dollars)	2018	2017
Interest on mortgages	**$41,903**	$38,948
Distributions on Class C LP Units - interest	**3,293**	3,415
Interest on mortgages and Retained Debt	**45,196**	42,363
Distributions on Class C LP Units - tax payment	**555**	544
Interest on the convertible debentures	**3,822**	2,790
Interest on finance lease	**389**	160
Amortization of mark-to-market adjustment on mortgages	**(443)**	(2,282)
Amortization of deferred financing costs	**2,964**	3,154
Amortization of deferred financing costs on the convertible debentures	**591**	530
Fair value loss on conversion option on the convertible debentures	**1,587**	157
Interest expense before distributions on Class B LP Units	**54,661**	47,416
Distributions on Class B LP Units	**11,422**	11,081
	$66,083	$58,497

Total interest expense increased by $7,586 during the year ended December 31, 2018, to $66,083, compared to $58,497 in 2017. The increase is predominantly due to an increase in interest on mortgages of $2,955 resulting from mortgage financing on properties acquired during the third quarter of 2017, an increase in convertible debenture interest of $1,032 due to the issuance of the 2018 Debentures net of the repayment of the 2013 Debentures, an increase of $341 in distributions on Class B LP Units resulting from an increase to monthly distributions during the fourth quarters of 2018 and 2017, an increase in interest on finance lease of $229, lower amortization of mark-to-market adjustments of $1,839 from the refinancing of mortgages that were assumed on properties acquired during 2013, and a non-cash increase in fair value change on the convertible debentures' conversion option of $1,430. The weakening of the Canadian dollar increased interest expense on U.S. mortgages by $42 excluding the impact of acquisitions and dispositions.

Morguard retained the mortgages and deferred financing costs on four Canadian properties (the "Retained Debt"), 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 year ended December 31, 2018, amounted to $3,848 (2017 - $3,959).

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 year ended December 31, 2018 amounted to $11,422 (2017 - $11,081).

TRUST EXPENSES

Trust expenses consist of the following:

For the years ended December 31 (In thousands of dollars)	2018	2017
Asset management fees and distributions	**$11,138**	$10,353
Professional fees	**1,152**	1,029
Public company expenses	**641**	574
Other	**834**	662
	$13,765	$12,618

Trust expenses increased by $1,147 during the year ended December 31, 2018, to $13,765, compared to $12,618 in 2017. The increase is predominantly due to an increase in 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 (LOSS) FROM INVESTMENT

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

Equity income from investment for the year ended December 31, 2018, was $271, net of a non-cash fair value loss of $783. Equity loss from investment for the year ended December 31, 2017, was $1,169. The loss is primarily due to a fair value loss attributable to acquisition costs that were initially capitalized.

FOREIGN EXCHANGE (GAIN) LOSS

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. The REIT’s foreign exchange gain for the year ended December 31, 2018, amounted to $2,280 (2017 - loss of $1,570), is mainly the result of the fluctuation of the Canadian dollar against the United States dollar as at December 31, 2018, when compared to December 31, 2017.

OTHER (INCOME) EXPENSE

Other expense (income) mainly represents interest income earned from the Morguard Facility on advances made to/from Morguard and other expenses. Other income was $65 during the year ended December 31, 2018, compared to other expense of $529 in 2017. The increase in other income of $594 during the year ended December 31, 2018 is predominantly due to a $482 decrease in net interest expense incurred on the Morguard Facility.

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. 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 year ended December 31, 2018, the REIT recognized a net fair value gain of $180,283 (2017 - $129,543). The fair value gain comprises $127,369 at the REIT’s Canadian properties primarily as a result of a 25 basis point decrease in capitalization rates at properties mainly located in the GTA as well as an increase in stabilized NOI and $52,914 at the U.S. properties, which was predominantly due to a 25 basis point decrease in capitalization rates across most of the properties located in the U.S. The REIT’s overall weighted average capitalization rate decreased from 4.9% at December 31, 2017 to 4.7% at December 31, 2018.

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 December 31, 2018, 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 $295,376 (2017 - $258,863). The REIT incurred a fair value loss for the year ended December 31, 2018 of $36,513 (2017 - $24,285) (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.

For the year ended December 31, 2018, the REIT recorded current tax expense of $233 compared to $826 in 2017. The decrease is primarily due to a non-recurring Alabama state tax incurred on the disposition of four Alabama properties in the third quarter of 2017.

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 tax. The REIT has recorded a deferred tax provision for U.S. federal and state taxes associated with the U.S. subsidiaries of approximately $23,288 for the year ended December 31, 2018 (2017 - recovery of $20,346).

The REIT’s tax provision consists of the following:

For the years ended December 31 **(In thousands of dollars)**	**2018**	2017
Current	**$233**	$826
Deferred	**23,288**	(20,346)
Provision for (recovery of) income taxes	**$23,521**	($19,520)

On December 22, 2017, the *Tax Cuts and Jobs Act of 2017* was signed into law, making significant changes to the Internal Revenue Code. The changes having the most significant impact on the REIT’s U.S. subsidiaries include, but are not limited to, a federal tax rate decrease from 35% to 21%, effective for taxation years beginning after December 31, 2017, the accelerated depreciation of residential real properties, and the limitation of interest expense deduction. The amount related to the re-measurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future resulted in a deferred tax recovery of $44,734 being recorded in the fourth quarter of 2017. During the second quarter of 2018, the REIT completed the analysis of income tax effects of limitation of interest expense deduction and, as at December 31, 2018, the REIT’s U.S. subsidiaries have a total of US$8,172 (2017 - US$nil) 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:

For the years ended December 31 (In thousands of dollars, except per Unit amounts)	2018	2017
Net income attributable to Unitholders	**$172,225**	$160,437
Add (deduct):		
Realty taxes accounted for under IFRIC 21[(1)]	**—**	(1,053)
Fair value loss on conversion option on the convertible debentures	**1,587**	157
Distributions on Class B LP Units recorded as interest expense[(2)]	**11,422**	11,081
Foreign exchange loss (gain)	**(2,280)**	1,570
Fair value gain on real estate properties, net[(3)]	**(179,500)**	(127,379)
Non-controlling interests' share of fair value gain (loss) on real estate properties	**(2,201)**	10,253
Fair value loss on Class B LP Units	**36,513**	24,285
Deferred income tax provision (recovery)	**23,288**	(20,346)
Current tax on disposition of properties	**107**	720
FFO - basic	**$61,161**	$59,725
Interest expense on the convertible debentures	**3,822**	2,790
FFO - diluted	**$64,983**	$62,515
FFO per Unit - basic	**$1.20**	$1.18
FFO per Unit - diluted	**$1.18**	$1.14
Weighted average number of Units outstanding (in thousands):		
Basic[(4)]	**50,930**	50,802
Diluted[(4) (5)]	**55,247**	54,673

(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 year ended December 31, 2018, increased by $1,436, or 2.4%, to $61,161 ($1.20 per Unit), compared to $59,725 ($1.18 per Unit) in 2017. The increase is mainly due to higher Proportionate NOI of $6,819 and an increase in other income of $594, partially offset by an increase in interest expense of $4,828 (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 $1,147. The increase in interest expense of $4,828 reflects lower amortization of mark-to-market adjustments of $1,839 from the refinancing of mortgages that were assumed on properties acquired during 2013.

Basic FFO per Unit for the year ended December 31, 2018, increased by $0.02 to $1.20 per Unit, compared to $1.18 per Unit in 2017.

DISTRIBUTIONS

The Trustees have discretion with respect to the timing and amounts of distributions. For the year ended December 31, 2018, total distributions amounted to $33,777 (2017 - $32,744).

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 the current level of $0.66 per Unit. The increase is effective for the November 2018 distribution, paid on December 14, 2018.

For the years ended December 31 (In thousands of dollars)	2018 Units	2018 Class B LP Units	2018 Total	2017 Units	2017 Class B LP Units	2017 Total
Distributions paid and declared	**$21,875**	**$11,422**	**$33,297**	$21,224	$11,081	$32,305
Distributions – DRIP	**480**	**—**	**480**	439	—	439
Total	**$22,355**	**$11,422**	**$33,777**	$21,663	$11,081	$32,744

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

For the years ended December 31 (In thousands of dollars)	2018	2017	2016
Net income	**$174,710**	$173,131	$31,978
Cash provided by operating activities	**59,947**	59,476	52,602
Distributions - Units(1)	**$22,355**	$21,663	$17,763
Excess of net income over distributions	**$152,355**	$151,468	$14,215
Excess of cash provided by operating activities over distributions	**$37,592**	$37,813	$34,839

(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 for the year ended December 31, 2018, includes $120,753 of non-cash components relating to a fair value gain on real estate properties, fair value loss on Class B LP Units, 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 December 31 (In thousands of Canadian dollars, unless otherwise stated)	2018	2017
Canadian Properties		
Alberta	**$61,000**	$61,400
Ontario	**1,148,490**	1,008,230
Total Canadian Properties	**1,209,490**	1,069,630
U.S. Properties (in US dollars)		
Colorado	**93,600**	87,500
Texas	**159,900**	151,200
Louisiana	**79,500**	76,400
Illinois	**227,400**	236,400
Georgia	**120,940**	110,500
Florida	**393,360**	363,400
North Carolina	**127,210**	121,160
Virginia	**49,100**	49,900
	1,251,010	1,196,460
Property under development	**12,254**	—
Total U.S. Properties (in US dollars)	**1,263,264**	1,196,460
Exchange amount to Canadian dollars	**460,081**	304,499
Total U.S. Properties (in Canadian dollars)	**1,723,345**	1,500,959
Total real estate properties	**$2,932,835**	$2,570,589

The value of real estate properties increased by $362,246 as at December 31, 2018, to $2,932,835, compared to $2,570,589 at December 31, 2017. The increase is mainly the result of the following:

- Net fair value gain on real estate properties of $180,283, which is mainly attributable to a 25 basis point decrease in capitalization rates at properties mainly located in the GTA and across most of the properties located in the U.S. as well as an increase in stabilized NOI;
- An increase of $135,754 due to the change in U.S. dollar foreign exchange rate;
- Capitalization of property enhancements and development expenditures of $30,115;
- An acquisition of a development property located in Louisiana for $14,866 (US$11,636); and
- Capitalization of tenant incentives of $1,228.

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 appraisal team's valuation processes and results are reviewed by the members of the REIT's senior management at least once every quarter, in line with the REIT's quarterly reporting dates.

As at December 31, 2018 and 2017, 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 income producing properties at each reporting period.

As at December 31, 2018, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 7.8% (2017 - 4.3% to 8.0%), applied to a stabilized net operating income of $138,449 (2017 - $126,894), resulting in an overall weighted average capitalization rate of 4.7% (2017 - 4.9%).

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

	December 31, 2018					December 31, 2017				
	Occupancy		Capitalization Rates			Occupancy		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Canada										
Alberta	**96.0%**	**96.0%**	**5.0%**	**5.0%**	**5.0%**	96.0%	96.0%	5.0%	5.0%	5.0%
Ontario	**97.0%**	**96.0%**	**4.5%**	**4.0%**	**4.2%**	97.0%	95.0%	4.5%	4.3%	4.4%
United States										
Colorado	**95.0%**	**95.0%**	**5.3%**	**5.3%**	**5.3%**	95.0%	95.0%	5.5%	5.5%	5.5%
Texas	**95.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	95.0%	94.0%	5.5%	5.3%	5.3%
Louisiana	**97.0%**	**90.0%**	**7.8%**	**5.5%**	**6.8%**	97.0%	90.0%	8.0%	5.8%	7.0%
Illinois	**95.0%**	**95.0%**	**4.5%**	**4.5%**	**4.5%**	95.0%	95.0%	4.5%	4.5%	4.5%
Georgia	**96.0%**	**95.0%**	**5.5%**	**5.0%**	**5.4%**	96.0%	95.0%	5.8%	5.3%	5.6%
Florida	**95.0%**	**93.5%**	**6.5%**	**5.0%**	**5.5%**	95.0%	93.6%	7.0%	5.0%	5.7%
North Carolina	**94.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	94.1%	94.0%	5.5%	5.3%	5.4%
Virginia	**95.0%**	**95.0%**	**4.8%**	**4.8%**	**4.8%**	95.0%	95.0%	4.8%	4.8%	4.8%
Maryland(1)	**95.0%**	**95.0%**	**4.5%**	**4.5%**	**4.5%**	95.0%	95.0%	4.8%	4.8%	4.8%

(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 income producing 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 income producing properties as at December 31, 2018, would decrease by $145,903 or increase by $162,349, 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 2019, at which point initial lease-up will commence. During the year ended December 31, 2018, the REIT incurred $1,165 of development expenditure 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.

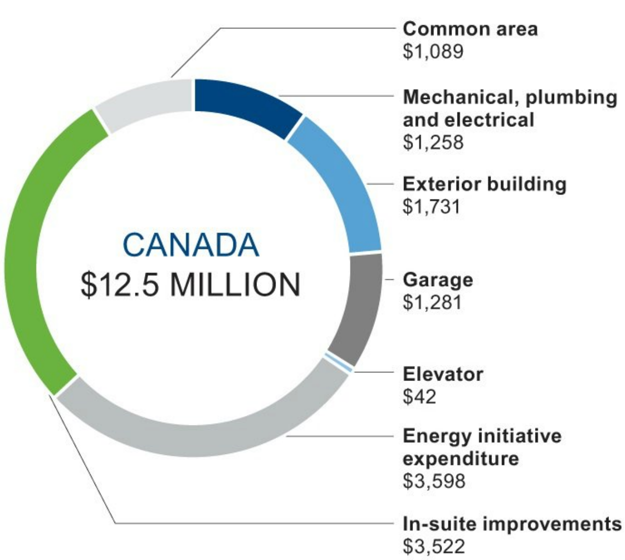
The following table provides additional details on total capital expenditures over the past three years:

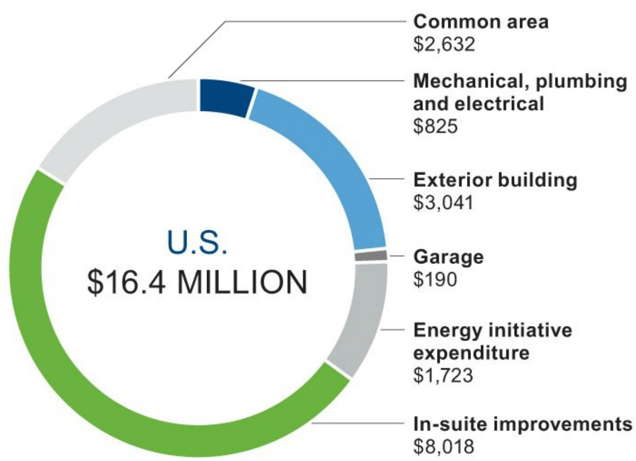
For the years ended December 31 (In thousands of dollars)	2018	2017	2016
Common area	**$3,721**	$3,097	$2,176
Mechanical, plumbing and electrical	**2,083**	2,414	2,027
Exterior building	**4,772**	4,129	2,257
Garage	**1,471**	1,917	525
Elevator	**42**	18	612
Energy initiative expenditure	**5,321**	2,416	1,507
In-suite improvements	**11,540**	7,586	10,013
Total capital expenditures	**$28,950**	$21,577	$19,117

Capital Expenditures by Region

The following details total capital expenditures by region:

For the year ended December 31, 2018
(In thousands of dollars)





During the year ended December 31, 2018, the REIT's total capital expenditures amounted to $28,950 (or $2,263 per suite), compared to $21,577 (or $1,720 per suite), the REIT's revenue enhancing capital expenditures were mainly comprised of in-suite improvements and energy initiative upgrades, the REIT also benefited from common area and exterior building projects which enhance the overall appeal of the properties.

In-suite renovations at properties where solid rental demand coupled with strong market fundamentals allow for above-market rent increases and an attractive return on the capital invested. Across the portfolio, during 2018 in-suite improvements included upgrades such as new kitchen countertops and appliances and the replacement of carpet with a more durable plank flooring.

The REIT continued capital expenditures on energy efficiency initiatives across the portfolio. These included boiler replacements and building automation systems, water and LED lighting retrofits as well as sub-metering for hydro consumption. Common area capital expenditure included enhancing amenity areas such as the business centre, pool and clubhouse as well as dog parks which were completed at several properties. Additionally, five properties underwent exterior painting projects in 2018 that enhance the overall curb appeal.

Sustaining capital included several projects such as garage, roof, fencing, sidewalk and driveways as well as landscaping upgrades which were completed across multiple properties.

EQUITY-ACCOUNTED INVESTMENT

On August 17, 2017, the REIT acquired a 50% interest in a property comprising 492 suites located in Rockville, Maryland, in which the REIT has a net investment of $40,080 (US$31,691). 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 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 December 31 **(In thousands of Canadian dollars)**	**2018**	2017
Balance, beginning of year	**$37,295**	$—
Additions	**—**	40,080
Share of net income (loss)	**271**	(1,169)
Distributions received	**—**	(1,276)
Foreign exchange gain (loss)	**3,293**	(340)
Balance, end of year	**$40,859**	$37,295

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:

For the years ended December 31 (In thousands of dollars)	2018	2017
Cash provided by operating activities	**$59,947**	$59,476
Cash used in investing activities	**(44,981)**	(338,962)
Cash provided by (used in) financing activities	**(23,422)**	298,706
Net increase (decrease) in cash during the year	**(8,456)**	19,220
Net effect of foreign currency translation on cash balance	**121**	(1,686)
Cash, beginning of year	**25,121**	7,587
Cash, end of year	**$16,786**	$25,121

Cash Provided by Operating Activities

Cash provided by operating activities during the year ended December 31, 2018, was $59,947, compared to $59,476 in 2017. The change during the year mainly relates to an increase in NOI (excluding IFRIC 21 adjustment) of $9,898, an increase in foreign exchange gain of $3,850, an increase in other income of $594 and a decrease in current tax of $593, partially offset by a decrease in non-cash operating assets and liabilities of $6,409, an increase in interest on mortgages of $2,955, an increase in additions to tenant incentives of $1,870, a decrease in distributions from equity-accounted investments of $1,276, an increase in trust expenses of $1,147 and an increase in interest on the convertible debentures of $1,032.

Cash Used in Investing Activities

Cash used in investing activities during the year ended December 31, 2018, totalled $44,981, compared to $338,962 in 2017. The cash used in investing activities during the year consists of the capitalization of property enhancements and development expenditures of $30,115 and acquisition of a development property totalling $14,866.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities during the year ended December 31, 2018, totalled $23,422, compared to cash provided by financing activities of $298,706 during the same period in 2017. The cash used in financing activities during the year was largely due to the repayment of mortgages on maturity of $67,982, the redemption of convertible debentures of $59,977, distributions paid to Unitholders of $21,818, mortgage principal instalment repayments of $21,364, net repayment of the Morguard Facility of $7,004, distributions to non-controlling interest of $4,048 and an increase in restricted cash of $2,539, partially offset by net proceeds of $82,125 from issuance of convertible debentures and net proceeds from new mortgages of $79,095.

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 December 31 (In thousands of dollars)	2018	2017
Mortgages payable, principal balance	**$1,243,887**	$1,178,796
Class C LP Units and present value of tax payment, principal balance	**90,663**	93,663
Convertible debentures, face value	**85,500**	60,000
Morguard Facility	**12,803**	21,799
Finance lease obligation	**9,754**	8,970
Class B LP Units	**295,376**	258,863
Unitholders' equity	**1,018,423**	814,342
Total capitalization	**$2,756,406**	$2,436,433

DEBT PROFILE

As at December 31, 2018, the overall leverage, as represented by the ratio of total indebtedness to gross book value was 47.9%. 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, the convertible debentures and the Morguard Facility.

The following table summarizes the key liquidity metrics:

As at December 31	2018	2017
Total indebtedness to gross book value	**47.9%**	51.4%
Weighted average mortgage interest rate(1)	**3.49%**	3.50%
Weighted average term to maturity on mortgages payable (years)	**5.8**	6.2

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

For the years ended December 31	2018	2017
Interest coverage ratio (1) (2)	**2.20**	2.19
Indebtedness coverage ratio (1) (3)	**1.58**	1.54

(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 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 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 REPAYMENT SCHEDULE

The following table reflects the principal repayment schedule for the REIT's mortgages and Class C LP Units.

As at December 31, 2018 (In thousands of dollars)	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2019	$22,731	$104,607	**$127,338**	3.21%
2020	24,499	8,828	**33,327**	4.25%
2021	25,494	75,280	**100,774**	3.97%
2022	25,782	72,027	**97,809**	3.76%
2023	21,908	172,815	**194,723**	3.46%
Thereafter	42,926	728,913	**771,839**	3.44%
	$163,340	$1,162,470	**1,325,810**	3.49%
Deferred financing costs			**(14,423)**	
Present value of tax payment on Class C LP Units			**8,740**	
Mortgages payable and Class C LP Units			**$1,320,127**	

As at December 31, 2018, the principal balance on the mortgages payable and Class C LP Units totalled $1,325,810 (2017 - $1,263,879) and the deferred financing costs associated with the mortgages and Class C LP Units amounted to $14,423 (2017 - $15,846).

As at December 31, 2018, mortgages payable include a $nil (2017 - $436) mark-to-market adjustment related to mortgages assumed on the properties acquired during 2013. The mark-to-market adjustment is fully amortized to interest expense using the effective interest method over the remaining term of the debt.

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 $8,740 as at December 31, 2018 (2017 - $8,580).

Mortgages payable and Class C LP Units increased by $63,078 as at December 31, 2018, to $1,320,127, compared to $1,257,049 at December 31, 2017. The increase is mainly due to the following:

- The repayment of two mortgages totalling $67,892 (US$52,816) located in Colorado and North Carolina, which were refinanced for a total of $80,000 (US$62,240);
- An increase of $70,163 due to the change in U.S. dollar foreign exchange rate;
- Amortization of deferred financing cost and the present value adjustment of tax liability on Class C LP Units of $3,519; partly offset by:
- Scheduled principal repayments of $21,364;
- Financing cost of $905; and
- Amortization of mark-to-market adjustment on mortgages of $443.

On April 30, 2018, the REIT completed the refinancing of a U.S. multi-suite residential property located in Fort Collins, Colorado, in the amount of $34,914 (US$27,200) at an interest rate of 4.11%, for a term of 10 years.

On May 1, 2018, the REIT completed the refinancing of a U.S. multi-suite residential property located in Raleigh, North Carolina, in the amount of $45,086 (US$35,040) at an interest rate of 4.04%, for a term of 10 years.

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. As at December 31, 2018, the mortgages and Class C LP Units bear interest at rates ranging between 2.25% and 4.25% per annum, with a weighted average interest rate of 3.49% (2017 - 3.50%) and mature between 2019 and 2029, with a weighted average term to maturity of 5.8 years (2017 - 6.2 years).

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. Significant changes in financial condition are reviewed below.

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	104,607	3.21%	—	—	—%
	3	**$104,607**	**3.21%**	**1**	**$8,828**	**4.25%**

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31 (In thousands of dollars)	2018	2017
4.65% convertible unsecured subordinated debentures	**$—**	$59,806
4.50% convertible unsecured subordinated debentures	**85,223**	—
Fair value of conversion option	**2,469**	798
Unamortized financing costs	**(2,923)**	(138)
	$84,769	$60,466

For the year ended December 31, 2018, interest on the convertible debentures amounting to $3,822 (2017 - $2,790), is included in interest expense.

4.65% Convertible Unsecured Subordinated Debentures

On March 15, 2013, the REIT issued $60,000 principal amount of 4.65% convertible unsecured subordinated debentures maturing on March 30, 2018. Interest was payable semi-annually, not in advance, on March 31 and September 30 of each year. The underwriters' commissions attributable to the 2013 Debentures in the amount of $2,062 have been capitalized and amortized over the term to maturity. Morguard owned $5,000 aggregate principal amount of the 2013 Debentures.

Each of the 2013 Debentures can be converted into fully paid, non-assessable and freely tradable Units at any time prior to the close of business on the last business day immediately preceding the maturity date or, if such 2013 Debentures have been called for redemption, then up to, but not after, the close of business on the last business day immediately preceding the date fixed for redemption at a conversion price of $15.50 per Unit, being the ratio of approximately 64.5161 Units per $1,000 principal amount of the 2013 Debentures.

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.

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 (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 December 31, 2018, $85,500 of the face value of the 2018 Debentures was 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.

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 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. As at December 31, 2017, the net amount payable under the Morguard Facility was $21,799, comprising an amount receivable of US$3,258 and a payable of $25,886.

During the year ended December 31, 2018, the REIT incurred on the Morguard Facility net interest expense of $19 (2017 - $501).

Subsequent to December 31, 2018, the REIT repaid US$5,000 and Morguard advanced $1,000 under the Morguard Facility.

FINANCE LEASE OBLIGATION

The REIT’s property located in Falls Church, Virginia, is subject to a long-term land lease, with a fixed price land purchase option available in September 2029. The REIT has classified the land lease as a finance lease under the assumption that substantially all the risks and rewards incidental to ownership have been transferred. The future minimum lease payments under the finance lease are as follows:

As at December 31 (In thousands of Canadian dollars)	2018	2017
Within 12 months	**$425**	$377
2 to 5 years	**1,868**	1,677
Over 5 years	**12,806**	12,205
Total minimum lease payments	**15,099**	14,259
Less: Future interest costs	**(5,345)**	(5,289)
Present value of minimum lease payments	**$9,754**	$8,970

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities for upcoming periods as at December 31, 2018, are as follows:

As at December 31, 2018	2019	2020	2021	2022	2023	Thereafter	Total
Mortgages payable and Class C LP Units	**$127,338**	**$33,327**	**$100,774**	**$97,809**	**$194,723**	**$771,839**	**$1,325,810**
Mortgage interest	**46,122**	**41,719**	**39,563**	**36,421**	**30,006**	**67,550**	**261,381**
Convertible debentures	**—**	**—**	**—**	**—**	**85,500**	**—**	**85,500**
Convertible debentures' interest	**3,848**	**3,858**	**3,848**	**3,848**	**949**	**—**	**16,351**
Finance lease obligation	**425**	**467**	**467**	**467**	**467**	**12,806**	**15,099**
Accounts payable and accrued liabilities	**46,428**	**—**	**—**	**—**	**—**	**—**	**46,428**
	$224,161	**$79,371**	**$144,652**	**$138,545**	**$311,645**	**$852,195**	**$1,750,569**

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, 2016, to December 31, 2018:

Issued and Fully Paid Units (In thousands, except Unit amounts)	Units	Amount
Balance, December 31, 2016	29,291,158	$309,803
Issuance of Units for cash, net of costs	4,370,000	57,686
Units issued under DRIP	29,455	439
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**

NORMAL COURSE ISSUER BIDS

The REIT had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 2,552,924 Units and $5,500 principal amount of the 2013 Debentures. The program expired on December 20, 2018. On December 13, 2018, the REIT obtained the approval of the TSX under its 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 years ended December 31, 2018 and 2017.

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 year ended December 31, 2018, the REIT issued 30,784 Units under the DRIP (2017 - 29,455 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 of 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 December 31, 2018 and 2017, there were 17,223,090 Class B LP Units issued and outstanding.

As at December 31, 2018, 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 $295,376 (2017 - $258,863) and a corresponding fair value loss for the year ended December 31, 2018 of $36,513 (2017 - $24,285). For the year ended December 31, 2018, distributions on Class B LP Units amounting to $11,422 (2017 - $11,081) are included in interest expense.

As at December 31, 2018, Morguard owned a 46.9% effective interest in the REIT through its ownership of 6,675,166 Units and 17,223,090 Class B LP Units.

As at February 12, 2019, there were 33,725,901 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. For the year ended December 31, 2018, fees and distributions amounting to $8,422 (2017 - $7,969) are included in property operating costs and equity income (loss) 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. For the year ended December 31, 2018, fees and distributions amounting to $11,350 (2017 - $10,438) are included in trust expenses and equity income (loss) 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. For the year ended December 31, 2018, acquisition fees relating to acquisition services amounted to $110 (2017 - $2,004).

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. For the year ended December 31, 2018, fees relating to financing services amounted to $121 (2017 - $421) 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. There were no fees relating to development services for the years ended December 31, 2018 and 2017.

Other Services

As at December 31, 2018 and 2017, the REIT had its portfolio appraised by Morguard's appraisal division. Fees relating to appraisal services for the year ended December 31, 2018, amounting to $232 (2017 - $232) 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.

KEY MANAGEMENT COMPENSATION

The executive officers of the REIT are employed by Morguard, and the REIT does not directly or indirectly pay any compensation to them. Any variability in compensation paid by Morguard to the executive officers of the REIT has no impact on the REIT's financial obligations, including its obligations under the various Agreements with Morguard and Morguard's affiliates.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The REIT's consolidated financial statements for the years ended December 31, 2018 and 2017, have been prepared in accordance with IFRS. A summary of the significant accounting policies is included in Note 2 to the audited consolidated financial statements for the year ended December 31, 2018.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods.

In determining estimates of fair market value for the REIT's income producing properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Significant estimates used in determining fair value of the REIT's income producing properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates, inflation rates and operating costs). Should any of these underlying assumptions change, actual results could differ from the estimated amounts.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The REIT's critical accounting policies are those that management believes are the most important in portraying the REIT's financial condition and results and that require the most subjective judgment and estimates on the part of management.

INCOME PRODUCING PROPERTIES

Income producing properties are recorded at fair value, determined based on available market evidence, at the balance sheet date. The critical assumptions and estimates used when determining the fair value of income producing properties are the amount of rental income from future leases reflecting current market conditions adjusted for assumption of future cash flows with respect to current and future leases, capitalization rates and expected occupancy rates. The properties are appraised using the direct capitalization income method. To assist with the evaluation of fair value, the REIT has its properties appraised by Morguard's appraisal division. Morguard's appraisal division is staffed with accredited members of the AIC who collectively in 2018 valued approximately $16 billion of real estate properties in Canada and the U.S. for institutional and corporate clients.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Management reports on a quarterly basis the fair value of financial instruments. The fair value of financial instruments approximates amounts at which these instruments could be exchanged between knowledgeable and willing parties. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. Management estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using December 31, 2018, market rates for debts of similar terms.

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, finance lease obligation 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, finance lease obligation 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 December 31, 2018, market rates for debts of similar terms. Based on these assumptions, as at December 31, 2018, 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 $1,239,641 and $83,865 (2017 - $1,171,797 and $88,125), respectively. The fair values of the mortgages payable and Class C LP Units vary from their carrying values due to fluctuations in market interest rates since their issue.

The fair value of the finance lease obligation is determined by discounting the cash flows of the financial obligation using December 31, 2018, market rates for debt on similar terms. Based on these assumptions, as at December 31, 2018, the fair value of the finance lease obligation has been estimated at $9,754 (2017 - $8,970).

The fair value of the convertible debentures is based on their market trading price. As at December 31, 2018, the fair value of the convertible debentures before deferred financing costs has been estimated at $85,500 (2017 - $60,000), compared with the carrying value of $85,223 (2017 - $59,806).

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 15, *“Revenue from Contracts with Customers”* (“IFRS 15”)

In May 2014, the IASB issued IFRS 15, a single comprehensive model to account for revenue arising from contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The REIT adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively.

The REIT completed its assessment of the impact of IFRS 15 and determined the pattern of revenue recognition remains unchanged upon adoption of the standard. The assessment included a review of contracts for all revenue streams including rental income and ancillary income (such as utilities, parking and laundry). The impact was limited to additional note disclosure on the disaggregation of some of the REIT’s revenue streams noted above.

Amendment to IAS 40, *“Investment Property”* (“IAS 40”)

During December 2016, the IASB issued an amendment to IAS 40, clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018.

The amendment did not have a material impact on the REIT’s consolidated financial statements.

IFRS 9 (2014), ***"Financial Instruments"*** **("IFRS 9")**
The final version of IFRS 9 was issued by the IASB in July 2014, and will replace IAS 39, *"Financial Instruments: Recognition and Measurement"* ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and liabilities within the scope of the current IAS 39 and a new expected loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or FVTPL and to measure equity-based financial assets either as FVTPL or as FVTOCI. No amounts are reclassified out of other comprehensive income ("OCI") if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The REIT adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively with no restatement of comparative periods.

Classification and Measurement
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets must be classified and measured based on three categories: amortized cost, FVTOCI and FVTPL. Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are "solely payments of principal and interest" ("SPPI") on the principal amounts outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The adoption of the new classification requirements under IFRS 9 did not result in changes in the measurement or the carrying amount of financial assets and liabilities.

The following table summarizes the impact of the adoption of IFRS 9 on the classification of the REIT's financial assets and liabilities:

	Classification under IAS 39	Classification under IFRS 9
Financial Assets		
Amounts receivable	Loans and receivables	Amortized cost
Morguard Facility	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Financial Liabilities		
Mortgages payable and Class C LP Units	Other financial liabilities	Amortized cost
Convertible debentures, excluding conversion option	Other financial liabilities	Amortized cost
Morguard Facility	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Finance lease obligation	Other financial liabilities	Amortized cost
Conversion option of convertible debentures	FVTPL	FVTPL
Class B LP Units	FVTPL	FVTPL

Impairment - Expected Credit Loss Model
IFRS 9 replaced the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model ("ECL model"). The ECL model requires a more timely recognition of expected credit losses using judgment determined on a probability-weighting basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at FVTOCI, except for investments in equity instruments. The adoption of the ECL model did not have a material impact on the REIT's consolidated financial statements.

General Hedge Accounting Model
IFRS 9 requires the REIT to ensure that hedge accounting relationships are aligned with the REIT's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The REIT does not currently have any hedging activities and the adoption did not have an impact on the REIT's consolidated financial statements.

FUTURE 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 using the same classification principle as in IAS 17 and distinguish between an operating or finance lease. This standard will be effective for annual periods beginning on or after January 1, 2019.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognize separately the interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset. The standard includes two recognition exemptions for leases: leases of "low-value" assets and short-term leases. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The REIT has completed the issue identification phase and impact assessment of the transition project. As a landlord, lessor accounting is substantially unchanged between IAS 17 and IFRS 16. The REIT does not expect the standard to have a substantial impact as lessor accounting is substantially unchanged under IFRS 16 and, therefore, leases with tenants are to be accounted for as operating leases in a consistent manner with the current accounting treatment. The REIT has reviewed all lease contracts in which it is a lessee and has noted that the adoption of IFRS 16 is not expected to have a material impact on the REIT's consolidated financial statements. The REIT will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

IFRIC Interpretation 23, "*Uncertainty over Income Tax Treatment*" ("IFRIC 23")

IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of 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. The Interpretation 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 IFRIC Interpretation is not expected to have a material impact on the REIT's consolidated financial statements.

RISKS AND UNCERTAINTIES

An investment in securities of the REIT involves significant risks. Investors should consider carefully the risks described below, the other information described elsewhere in this MD&A (as updated by subsequent interim MD&A) and those risks set out in the REIT's Annual Information Form ("AIF") for the year ended December 31, 2018, dated February 12, 2019, before making a decision to buy securities of the REIT. If any of the following or other risks occur, the REIT's business, prospects, financial condition, financial performance and cash flows could be materially adversely affected. In that case, the ability of the REIT to make distributions to Unitholders and the Partnership to make distributions could be adversely affected, the trading price of securities of the REIT could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT, including those set out in the REIT's publicly filed disclosure available on SEDAR.

The following are business risks the REIT expects to face in the normal course of its operations and management's strategy to reduce the potential impact.

OPERATING RISK

Real estate has a high fixed cost associated with ownership, and income lost due to vacancies cannot easily be minimized through cost reduction.

Tenant retention and leasing vacant suites are critical to maintaining occupancy levels. Through well-located and professionally managed properties, management seeks to increase tenant loyalty and become the landlord of choice.

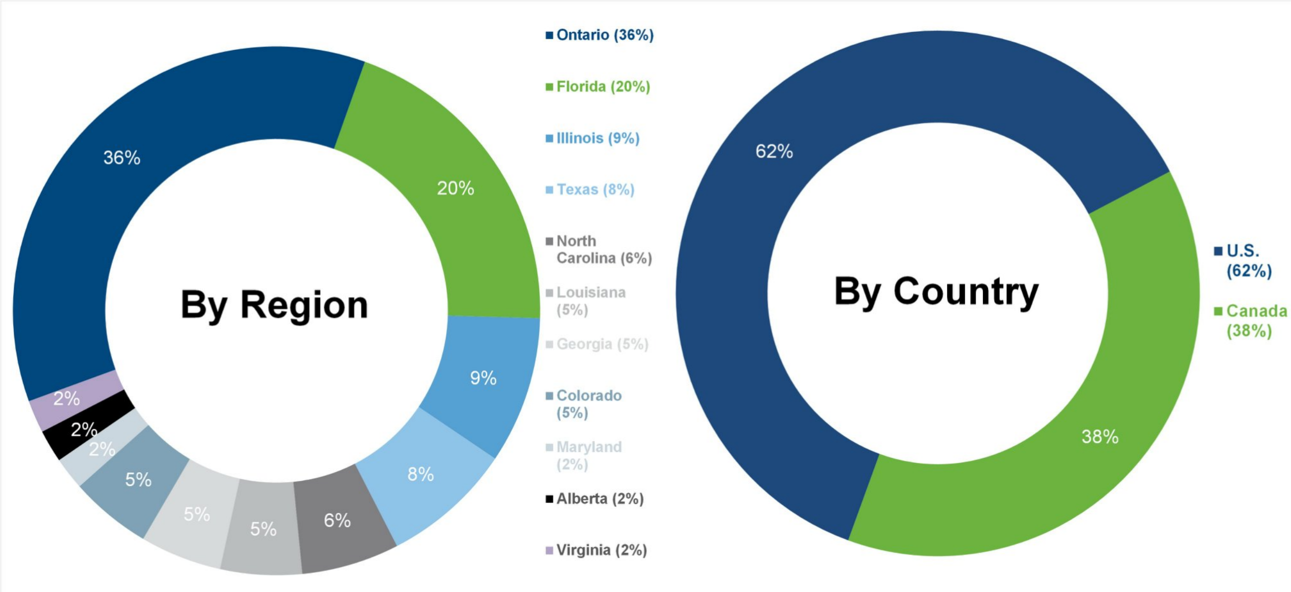
Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale.

The REIT is also subject to property tax and utility risk relating to increased costs that the REIT may experience as a result of higher resource prices, as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of revaluations of municipal properties and their adherent tax rates. In some instances, enhancements to properties may result in a significant increase in property assessments following a revaluation. Additionally, utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Unlike commercial leases, which generally are "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases, and the landlord is not able to pass on costs to its tenants.

In connection with the prudent management of its properties, the REIT makes significant property capital investments (for example, to upgrade and maintain building structure, balconies, parking garages, roofing, and electrical and mechanical systems). The REIT commissioned building condition reports in connection with the acquisition of each of the properties and has committed to a multi-year property capital investment plan based on the findings of such reports. The REIT continually monitors its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its property capital investment programs. The REIT requires sufficient capital to carry out its planned property capital investment and repair and refurbishment programs to upgrade its properties or be exposed to operating business risks arising from structural failure, electrical or mechanical breakdowns, fire or water damage, etc., which may result in significant loss of earnings to the REIT.

Distributions may be reduced or even eliminated at times when the REIT deems it necessary to make significant capital or other expenditures.

For the year ended December 31, 2018, the portfolio diversification as a percentage of NOI is as follows:



REPORTING INVESTMENT PROPERTY AT FAIR VALUE

The REIT holds investment property to earn rental income, or for capital appreciation or both. All investment properties are measured using the fair value model under IFRS, whereby changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Management values each investment property based on the most probable price that a property should be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, such as the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Each investment property has been valued on a highest and best-use basis.

There is a risk that general declines in real estate markets or sales of assets by the REIT under financial or other hardship would have an impact on the fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect the REIT's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser because this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have a significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the investment properties.

FOREIGN EXCHANGE RISK

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 risk with respect to future cash flows derived from the properties located in the U.S. The REIT's exposure to exchange rate risk could increase if the proportion of income from properties located in the United States increases as a result of future property acquisitions in the United States.

The REIT mitigates its foreign currency exposure by offsetting certain revenues earned in United States dollars from its U.S. properties against expenses and liabilities undertaken by the REIT in United States dollars.

As at December 31, 2018, the Canadian dollar value was US$0.73 compared to US$0.80 a year earlier. The average exchange rate for the year ended December 31, 2018, was US$0.77 compared to US$0.77 during 2017. The strengthening of the Canadian dollar during 2018 resulted in an unrealized foreign currency translation gain of approximately $61,345 for the year ended December 31, 2018, recognized in OCI.

RISK RELATED TO GOVERNMENT REGULATIONS

Certain provinces and territories of Canada 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. Limits on the REIT's ability to raise rental rates at its properties may materially adversely affect the REIT's ability to increase income from its properties.

In addition to limiting the REIT's ability to raise rental rates, provincial and territorial residential tenancy legislation provides certain rights to tenants, while imposing obligations upon the landlord. Residential tenancy legislation in the provinces of Alberta and Ontario prescribes certain procedures that must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective administrative body governing residential tenancies as appointed under a province's residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears.

Under Ontario's rent control legislation, a landlord is entitled to increase the rent for existing tenants once every 12 months by no more than the "guideline amount" based on the Ontario Consumer Price Index ("CPI"). The guideline increase cannot be more than 2.5%, even if the CPI increase is higher. For the calendar year 2018, the guideline amount was established at 1.8% (1.5% for 2017). This adjustment is meant to take into account the income of the building and the municipal and school taxes, the insurance bills, the energy costs, maintenance and service costs. Landlords may apply to the Ontario Rental Housing Tribunal for an increase above the guideline amounts if annual costs for heat, hydro, water or municipal taxes have increased significantly or if building security, maintenance and service costs have increased. When a suite is vacated, however, the landlord is entitled to lease the suite to a new tenant at any rental amount, after which annual increases are limited to the applicable guideline amount. The landlord may also be entitled to a greater increase in rent for a suite under certain circumstances, including, for example, where extra expenses have been incurred as a result of a renovation of that suite.

COMPETITION

The multi-suite residential real estate sector is highly competitive. The REIT faces competition from many sources, including other multi-suite residential buildings in the immediate vicinity and the broader regions where the REIT's residential properties are located. 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 could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Furthermore, the multi-suite residential properties that the REIT owns or may acquire, compete with numerous housing alternatives in attracting tenants, including owner-occupied single- and multi-family homes available to rent or purchase. The relative demand for such alternatives may be increased by declining mortgage interest rates, government programs that promote home ownership or other events or initiatives that increase the affordability of such alternatives to multi-suite residential rental properties and could materially adversely affect the REIT's ability to retain tenants, lease suites and increase or maintain rental rates. Such competition may reduce occupancy rates and rental revenues of the REIT and could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

The competition for multi-suite residential properties available for sale may significantly increase the cost of acquiring such assets and may result in such assets being acquired by the REIT at prices or on terms that are comparatively less favourable to the REIT or may result in such assets being acquired by competitors of the REIT. In addition, the number of entities seeking to acquire multi-suite residential properties and/or the amount of funds competing for such acquisitions may increase. Furthermore, single-property acquisitions from tax-motivated individual sellers may be available for sale only at a higher cost to the REIT relative to portfolio acquisitions. Increases in the cost to the REIT of acquiring multi-suite residential properties may materially adversely affect the ability of the REIT to acquire such properties on favourable terms and may otherwise have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

FINANCING RISK

The REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities secured by the REIT's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. To minimize this risk, the REIT has structured its debt maturities over a number of years and has negotiated fixed interest rates on all of its mortgages payable.

DEPENDENCE ON THE PARTNERSHIP

The REIT is an unincorporated, open-ended real estate investment trust that is entirely dependent on the operations and assets of the Partnership through the REIT's ownership of a 66.2% limited partnership interest in the Partnership. Cash distributions to holders of Units will be dependent on, among other things, the ability of the Partnership to make cash distributions with respect to the Class A LP Units. The Partnership and its subsidiaries are separate and distinct legal entities. The ability of the Partnership to make cash distributions or other payments or advances will depend on the Partnership's results of operations and may be restricted by, among other things, applicable corporate, tax and other laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of the Partnership (including the Retained Debt), any priority distributions contained in the Limited Partnership Agreement and other agreements governing the Partnership, and restrictions contained in the agreements governing the arrangement with the co-owners of certain properties.

DEPENDENCE ON MORGUARD

The REIT is dependent upon Morguard for certain operational and administrative services relating to the REIT's business. Should Morguard terminate the Asset Management Agreement, the REIT may be required to engage the services of an external asset manager. The REIT may be unable to engage an asset manager on acceptable terms, in which case the REIT's operations and cash available for distribution may be adversely affected.

SIGNIFICANT OWNERSHIP BY MORGUARD

At the date hereof, Morguard holds an approximately 46.9% effective interest in the REIT through ownership of, or the control or direction over, Units and Class B LP Units. For so long as Morguard maintains a significant effective interest in the REIT, Morguard benefits from certain contractual rights regarding the REIT and the Partnership, such as pre-emptive rights to maintain its *pro rata* ownership interest in the REIT and the Partnership and certain "tag-along" rights to sell a proportionate number of its Units pursuant to a *bona fide* third-party offer to the REIT to purchase any of the securities of a partnership controlled by the REIT on the same terms and conditions set forth in the *bona fide* offer. Morguard has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes and also may have the ability to effectively prevent certain fundamental transactions. Morguard's significant effective interest may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price.

TAXATION MATTERS

The Act contains rules (the "SIFT Rules") that apply to a SIFT. A SIFT includes a publicly listed or traded partnership or trust such as an income trust. Under the SIFT Rules, certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax. The SIFT Rules do not apply to a trust that satisfies certain conditions relating to the nature of its income and investments (the "REIT Exception").

Although, as of the date hereof, management believes that the REIT will be able to meet the requirements of the REIT Exception throughout 2019 and beyond, there can be no assurance that the REIT will be able to qualify for the REIT Exception such that the REIT and the Unitholders will not be subject to the SIFT Rules in 2019 or in future years.

In the event that the SIFT Rules apply to the REIT, the impact to Unitholders will depend on the status of the holder and, in part, on the amount of income distributed, which would not be deductible by the REIT in computing its income in a particular year, and what portions of the REIT's distributions constitute "non-portfolio earnings", other income and returns of capital. The likely effect of the SIFT Rules on the market for Units and on the REIT's ability to finance future acquisitions through the issue of Units or other securities is unclear. If the SIFT Rules apply to the REIT, they may adversely affect the marketability of the Units, the amount of cash available for distributions and the after-tax return to investors.

The REIT intends to comply with the requirements under the Act at all relevant times such that it will maintain its status as a "unit trust" and a "mutual fund trust" for purposes of the Act. Under current law, a trust may lose its status under the Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of non-residents, except in limited circumstances. Accordingly, non-residents may not be the beneficial owners of more than 49% of the Units (determined on a basic or a fully diluted basis). The Trustees will also have various powers that can be used for the purpose of monitoring and controlling the extent of non-resident ownership of the Units. The restrictions on the issuance of Units by the REIT to non-residents may negatively affect the REIT's ability to raise financing for future acquisitions or operations. In addition, the non-resident ownership restrictions could have a negative impact on the liquidity of the Units and the market price at which Units can be sold.

There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency ("CRA") respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders.

The Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are non-residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. Unitholders who are non-residents should consult their own tax advisers.

The Act includes "loss restriction event" ("LRE") rules that could potentially apply to the REIT. In general, the REIT will be subject to a LRE if a person (or group of persons) acquires more than 50% of the fair market value of the Units. If a LRE occurs: (i) the REIT will be deemed to have a year-end for tax purposes immediately before the LRE occurs; (ii) any net income and net realized capital gains of the REIT at such year-end will be distributed to Unitholders to the extent required for the REIT not to be liable for income taxes, and (iii) the REIT will be restricted in its ability to use tax losses (including any unrealized capital losses) that exist at the time of the LRE in taxation years that end after the time of the LRE.

INTERNAL CONTROLS

Effective internal controls are necessary for the REIT to provide reliable financial reports and to help prevent fraud. Although the REIT undertakes a number of procedures and Morguard and certain of its subsidiaries implement a number of safeguards, in each case in order to help ensure the reliability of their respective financial reports, including those imposed on the REIT under Canadian securities law, the REIT cannot be certain that such measures ensure that the REIT will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls or difficulties encountered in their implementation could harm the REIT's results of operations or cause it to fail to meet its reporting obligations. If the REIT or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the REIT's consolidated financial statements and materially adversely affect the trading price of the Units.

POTENTIAL CONFLICTS OF INTEREST WITH MORGUARD

Morguard's continuing businesses may lead to conflicts of interest between Morguard and the REIT. The REIT may not be able to resolve any such conflicts, and, even if it does, the resolution may be less favourable to the REIT than if it were dealing with a party that was not a holder of a significant interest in the REIT. The agreements that the REIT entered into with Morguard may be amended upon agreement between the parties, subject to applicable law and approval of the Independent Trustees. Because of Morguard's significant holdings in the REIT, the REIT may not have the leverage to negotiate any required amendments to these agreements on terms as favourable to the REIT as those the REIT could secure with a party that was not a significant holder of Units.

VOLATILE MARKET PRICE FOR THE REIT'S SECURITIES

The market price for the REIT's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (i) actual or anticipated fluctuations in the REIT's financial performance and future prospects; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (iv) addition to or departure of the REIT's executive officers; (v) release or expiration of lock-up or other transfer restrictions on outstanding Units or Class B LP Units; (vi) sales or perceived sales of additional Units; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets; (ix) liquidity of the REIT's securities; (x) prevailing interest rates; (xi) the market price of other REIT securities; (xii) a decrease in the amount of distributions declared and paid by the REIT; and (xiii) general economic conditions.

UNITHOLDER LIABILITY

The Declaration of Trust provides that no holders of Units will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in the province of Ontario and certain other provinces that is intended to provide holders of Units in those provinces with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. The affairs of the REIT are conducted in a manner to seek to minimize such risk wherever possible.

DISTRIBUTIONS

As a result of seasonal fluctuations in cash flows, the REIT from time to time may pay distributions to Unitholders that have exceeded cash flow from operating activities. As a result, the REIT has not funded distributions from alternate sources such as the Morguard Facility, mortgages or other financing instruments, has not made any distributions that have included a return of capital and has not been required to amend any material contracts.

There can be no assurance in the future that the REIT will continue to fund distributions entirely from cash from operating activities. In such an event, the REIT may be required to fund its distributions from sources other than operations, such as the Morguard Facility, mortgages or other financing instruments; make distributions that include a return of capital; or amend material contracts. In addition, non-cash distributions, such as the issuance of Units under the DRIP, have the effect of increasing the number of Units outstanding, which may cause cash distributions to increase over time assuming stable per Unit cash distribution levels.

DILUTION

The number of Units that the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed and applicable securities laws. The issuance of any additional Units may have a dilutive effect on the interests of holders of Units.

WITHHOLDING TAX

The Act generally provides that withholding tax is not payable on interest paid or credited to non-residents of Canada who deal at arm's length with the payor. However, withholding tax continues to apply to payments of "participating debt interest", which is defined as interest that is paid on an obligation where all or any portion of such interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any similar criterion.

Under the Act, when a debenture or other debt obligation issued by a person resident in Canada is assigned or otherwise transferred by a non-resident person to a person resident in Canada (which would include a conversion of the obligation or payment on maturity), the amount, if any, by which the price for which the obligation was assigned or transferred exceeds the price for which the obligation was issued is deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident (an "excess"). The deeming rule does not apply with respect to certain "excluded obligations", although it is not clear whether a particular convertible debenture would qualify as an "excluded obligation". If a convertible debenture is not an excluded obligation, issues that arise are: (i) whether any excess would be considered to exist; (ii) whether any such excess that is deemed to be interest is participating debt interest; and (iii) if the excess is participating debt interest, whether that results in all interest on the obligation being considered to be participating debt interest.

The issue of whether an excess amount is properly characterized as participating debt interest is uncertain, and the CRA has not provided any definitive guidance in this regard. Accordingly, there is a risk that the CRA could take the position that amounts paid or payable by the REIT to a non-resident holder of Debentures on account of interest or any excess amount may be subject to Canadian withholding tax at a rate of 25% (subject to any reduction in accordance with any applicable income tax treaty or convention).

The Indenture does not contain a requirement for the REIT to increase the amount of interest or other payments to holders of Debentures should the REIT be required to withhold amounts with respect to income or similar taxes on payments of interest or other amounts.

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented and assessed the design and effectiveness 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 and effectiveness 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 and operation are adequate and effective as of and for the year ended December 31, 2018. The REIT’s management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that the design and operation are effective as of and for the year ended December 31, 2018.

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

SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table shows information for revenue from real estate properties, NOI, net income attributable to Unitholders, FFO, distributions declared, total assets, non-current financial liabilities, and per Unit amounts for the periods noted.

For the years ended December 31 (In thousands of dollars)	2018	2017	2016
Revenue from real estate properties	**$241,368**	$226,495	$218,472
NOI	**131,693**	122,736	115,294
NOI per Unit[1]			
- basic	**2.59**	2.42	2.48
- diluted	**2.38**	2.24	2.29
Net income attributable to Unitholders	**172,225**	160,437	29,263
Net income attributable to Unitholders per Unit[1]			
- basic	**3.38**	3.16	0.63
- diluted	**3.12**	2.93	0.58
FFO			
- basic	**61,161**	59,725	57,591
- diluted	**64,983**	62,515	60,381
FFO per Unit[1]			
- basic	**1.20**	1.18	1.24
- diluted	**1.18**	1.14	1.20
Distributions declared[2]	**33,784**	32,681	28,215
Distributions per Unit (annualized)	**0.66**	0.64	0.61
Total assets	**3,011,469**	2,651,097	2,285,727
Non-current portion of financial liabilities			
Mortgages payable and Class C LP Units	**1,195,709**	1,173,049	1,027,588
Debentures	**84,769**	—	59,779
Class B LP Units	**295,376**	258,863	234,578
Finance lease obligation	**9,754**	8,970	—
Number of suites	**13,430**	13,314	13,472

(1) For the purpose of calculating NOI, net income attributable to Unitholders and FFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis.

(2) Distributions declared is calculated based on the monthly distribution per Unit multiplied by the weighted average number of Units outstanding during the year. Class B LP Units are included as Units outstanding.

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 Attributable to Unitholders	Net Income Attributable to Unitholders per Unit	
					Basic	Diluted[1]
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
September 30, 2017	56,787	35,202	14,489	7,559	0.15	0.15
June 30, 2017	57,201	35,165	16,305	59,351	1.17	1.11
March 31, 2017	55,621	16,917	15,277	2,028	0.04	0.04

(1) Units also include the dilutive impact of the 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 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 2018, the REIT acquired a property comprising 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.

During the third quarter of 2017, the REIT acquired two properties comprising 619 suites, a 50% interest in a property comprising 492 suites and disposed for four properties comprising 1,329 suites.

During the second quarter of 2017, the REIT acquired a property comprising 60 rental townhomes.

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 2018, the Ontario guideline increase amount was established at 1.8% (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 third and fourth quarters of 2017, is a result of a change in foreign exchange rates which was partially offset by the impact of acquisition, net of disposal of properties, and an increase in Same Property revenue.

As at December 31, 2018, Same Property occupancy in Canada was 99.1%, 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 December 31, 2018, Same Property occupancy in the U.S. was 94.7% as occupancy remains slightly below historical averages due to current economic conditions in oil-driven markets such as Louisiana, increased demand for single-family homes impacting certain properties, as well as an increase of new supply currently in lease-up within the REIT's properties immediate sub-markets, particularly in Maryland.

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 Attributable to Unitholders

Taking into account the above factors for revenue and NOI variations, the change in net income 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 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. 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.

Fourth Quarter Results 2018

For the three months ended December 31 (In thousands of dollars)	2018	2017
Revenue from real estate properties	**$62,129**	$56,886
Property operating expenses		
Property operating costs	**(16,201)**	(14,863)
Realty taxes	**(3,396)**	(2,007)
Utilities	**(4,455)**	(4,564)
Net operating income	**38,077**	35,452
Other expenses (income)		
Interest expense	**17,564**	14,234
Trust expenses	**3,526**	3,062
Equity loss (income) from investment	**638**	(290)
Foreign exchange gain	**(1,503)**	(105)
Other expense	**13**	246
Income before fair value changes and income taxes	**17,839**	18,305
Fair value gain on real estate properties, net	**46,429**	39,700
Fair value gain (loss) on Class B LP Units	**(19,634)**	9,817
Income before income taxes	**44,634**	67,822
Provision for (recovery of) income taxes		
Current	**139**	(5)
Deferred	**(5,110)**	(33,372)
	(4,971)	(33,377)
Net income for the period	**$49,605**	$101,199
Net income attributable to:		
Unitholders	**$54,380**	$91,499
Non-controlling interest	**(4,775)**	9,700
	$49,605	$101,199

The REIT's net income attributable to Unitholders for the three months ended December 31, 2018, decreased by $37,119 to $54,380, compared to $91,499 for the three months ended December 31, 2017. The decrease in net income was primarily due to the following:

- An increase in fair value loss of $29,451 on Class B LP Units due to an increase in trading price of the Units in the fourth quarter of 2018 compared to the decrease in trading price in the same period in 2017;
- A decrease in deferred income tax recovery of $28,262. 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.

These items were partially offset by the following:

- A fair value gain of $6,729 on real estate properties;
- A decrease of $14,475 in non-controlling interest share of net income primarily as a result of an increase in fair value loss on real estate properties; and
- An increase in NOI of $2,625, largely attributable to an increase in AMR and occupancy, partly offset by an increase in expenses, primarily from higher operating costs and realty taxes and the impact of a change in foreign exchange rates. The increase in realty taxes is due to an increase in assessed market value at certain properties.

SUBSEQUENT EVENT

On February 1, 2019, the REIT sold a property located in Shreveport, Louisiana, comprising 194 suites, for gross proceeds of $13,750 (US$10,500) and the purchaser assumed the mortgage secured by the property in the amount of $6,980 (US$5,330).

PART IX

OUTLOOK

In Canada, generally positive conditions were observed in the multi-suite residential sector during 2018. Demand for rental accommodation was strong led by a healthy national economy, above-average international migration patterns and the inability of many renters to afford to purchase homes in several regions. Particularly in the GTA, vacancy reached record low levels as rental demand outpaced supply due to the continued lack of purchase affordability in housing prices, tighter mortgage rules and a backdrop of interest rate increases on the horizon, as many renters were effectively priced out of the ownership market.

The demand pressure for apartments resulted in cycle low capitalization rates for high-quality properties, particularly in major markets. Capitalization rates continued to tighten despite the prospects of rising interest rates. The availability of low cost debt and equity capital added to the overall demand pressure. Value add opportunities in secondary markets were attractive given the shortfall in core availability.

In 2019, Canada's multi-suite residential sector is expected to post positive returns and AMR uplift on turnover to mirror those of 2018. The Canadian economy is expected to grow, although at a slower pace compared to 2018. However, there are risks associated with the largely healthy outlook. The most direct threats include: a sharp reduction in global resource demand, the negative repercussions of record consumer debt and the ongoing uncertainty of the U.S. global trade conflict, the negative impact of rising interest rates or anything that might stall the global economic recovery.

The U.S. multi-suite residential sector performance of the recent past was largely stable and healthy. Demand was driven by a robust economic growth trend and a strong job market. National unemployment held close to the 4.0% mark as companies struggled to source staff. This applied upward pressure on wages and inflation. Rising prices in the housing market also boosted demand for rental accommodation. The stability and health of the sector's demand cycle continued to push rents moderately higher. Demand for core quality assets bested supply, which produced a competitive bidding cycle. This helped stabilize capitalization rates close to the cycle low. Investors were able to access relatively low-cost debt through Fannie Mae and Freddie Mac, which accounted for the majority of lending activity.

Continued progress is projected for the coming year for the U.S. multi-suite residential sector. Rental market conditions are expected to soften slightly, but demand is still reinforced by a strong overall propensity to rent. Continued economic growth will support household formation and wage growth. As a result, rental demand will continue to support fairly low vacancy levels, although rising interest rates could eventually reduce investment demand levels. The generally stable sector outlook will come with a measure of risk. Much of the risk is related to the potential for weaker-than-forecast economic performance.

The REIT benefits from conservative financial leverage, a low payout ratio and access to debt and equity markets at a reasonable cost. The REIT's asset class and regional diversification should also help it withstand the economic challenges that are anticipated in 2019.

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Morguard North American Residential Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Morguard North American Residential Real Estate Investment Trust (the "REIT"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform, we conclude there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephanie Lamont.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
February 12, 2019

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31	Note	2018	2017
ASSETS			
Non-current assets			
Real estate properties	5	**$2,932,835**	$2,570,589
Equity-accounted investment	6	**40,859**	37,295
		2,973,694	2,607,884
Current assets			
Amounts receivable		**3,652**	4,541
Prepaid expenses		**4,164**	3,754
Restricted cash		**13,173**	9,797
Cash		**16,786**	25,121
		37,775	43,213
		$3,011,469	$2,651,097
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable and Class C LP Units	7	**$1,195,709**	$1,173,049
Convertible debentures	8	**84,769**	—
Class B LP Units	9	**295,376**	258,863
Deferred income tax liabilities	17	**114,351**	82,482
Accounts payable and accrued liabilities	11	**9,754**	8,970
		1,699,959	1,523,364
Current liabilities			
Mortgages payable and Class C LP Units	7	**124,418**	84,000
Convertible debentures	8	**—**	60,466
Morguard Facility	10	**12,803**	21,799
Accounts payable and accrued liabilities	11	**46,428**	43,762
		183,649	210,027
Total liabilities		**1,883,608**	1,733,391
EQUITY			
Unitholders' equity		**1,018,423**	814,342
Non-controlling interest		**109,438**	103,364
Total equity		**1,127,861**	917,706
		$3,011,469	$2,651,097

Commitments and contingencies 21

See accompanying notes to the consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Trustee

(Signed) "Mel Leiderman"

Mel Leiderman,
Trustee

STATEMENTS OF INCOME

In thousands of Canadian dollars

For the years ended December 31	Note	2018	2017
Revenue from real estate properties	13	**$241,368**	$226,495
Property operating expenses			
Property operating costs		**(61,099)**	(59,370)
Realty taxes		**(30,199)**	(26,370)
Utilities		**(18,377)**	(18,019)
Net operating income		**131,693**	122,736
Other expenses (income)			
Interest expense	14	**66,083**	58,497
Trust expenses	15	**13,765**	12,618
Equity loss (income) from investment	6	**(271)**	1,169
Foreign exchange loss (gain)		**(2,280)**	1,570
Other expense (income)		**(65)**	529
Income before fair value changes and income taxes		**54,461**	48,353
Fair value gain on real estate properties, net	5	**180,283**	129,543
Fair value loss on Class B LP Units	9	**(36,513)**	(24,285)
Income before income taxes		**198,231**	153,611
Provision for (recovery of) income taxes	17		
Current		**233**	826
Deferred		**23,288**	(20,346)
		23,521	(19,520)
Net income for the year		**$174,710**	$173,131
Net income attributable to:			
Unitholders		**$172,225**	$160,437
Non-controlling interest		**2,485**	12,694
		$174,710	$173,131

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the years ended December 31	2018	2017
Net income for the year	**$174,710**	$173,131
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may be reclassified subsequently to net income:		
Unrealized foreign currency translation gain (loss)	**61,345**	(37,471)
Other comprehensive income (loss)	**61,345**	(37,471)
Total comprehensive income for the year	**$236,055**	$135,660
Total comprehensive income attributable to:		
Unitholders	**$225,933**	$125,264
Non-controlling interest	**10,122**	10,396
	$236,055	$135,660

See accompanying notes to the 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, 2016		$309,803	$48,762	$193,961	$100,090	$652,616	$31,410	$684,026
Changes during the year:								
Net income		—	—	160,437	—	160,437	12,694	173,131
Other comprehensive loss		—	—	—	(35,173)	(35,173)	(2,298)	(37,471)
Decrease in subsidiary ownership interest		—	—	—	—	—	63,410	63,410
Issue of Units		57,686	—	—	—	57,686	—	57,686
Issue of Units - DRIP		439	—	(439)	—	—	—	—
Distributions		—	—	(21,224)	—	(21,224)	(1,852)	(23,076)
Unitholders' equity, December 31, 2017		**$367,928**	**$48,762**	**$332,735**	**$64,917**	**$814,342**	**$103,364**	**$917,706**
Changes during the year:								
Net income		**—**	**—**	**172,225**	**—**	**172,225**	**2,485**	**174,710**
Other comprehensive income		**—**	**—**	**—**	**53,708**	**53,708**	**7,637**	**61,345**
Issue of Units - DRIP	12(d)	**480**	**—**	**(480)**	**—**	**—**	**—**	**—**
Issue of Units - debentures converted	12(d)	**23**	**—**	**—**	**—**	**23**	**—**	**23**
Distributions	12(d)	**—**	**—**	**(21,875)**	**—**	**(21,875)**	**(4,048)**	**(25,923)**
Unitholders' equity, December 31, 2018		**$368,431**	**$48,762**	**$482,605**	**$118,625**	**$1,018,423**	**$109,438**	**$1,127,861**

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the years ended December 31	Note	2018	2017
OPERATING ACTIVITIES			
Net income		**$174,710**	$173,131
Add (deduct) items not affecting cash	18(a)	**(114,607)**	(123,054)
Additions to tenant incentives		**(2,120)**	(250)
Distributions from equity-accounted investment		**—**	1,276
Net change in non-cash operating assets and liabilities	18(b)	**1,964**	8,373
Cash provided by operating activities		**59,947**	59,476
INVESTING ACTIVITIES			
Acquisition of income producing properties		**—**	(365,990)
Acquisition of property under development	5	**(14,866)**	—
Additions to income producing properties	5	**(28,950)**	(21,577)
Additions to property under development	5	**(1,165)**	—
Proceeds from sale of income producing properties		**—**	88,685
Investment in equity-accounted investment		**—**	(40,080)
Cash used in investing activities		**(44,981)**	(338,962)
FINANCING ACTIVITIES			
Proceeds from issuance of Units, net of costs		**—**	57,686
Proceeds from issuance of convertible debentures, net of costs	8	**82,125**	—
Redemption of convertible debentures	8	**(59,977)**	—
Proceeds from new mortgages	7	**80,000**	309,899
Financing cost on new mortgages		**(905)**	(3,253)
Repayment of mortgages and Class C LP Units			
Repayments on maturity		**(67,892)**	(144,849)
Principal instalment repayments		**(21,364)**	(21,099)
Contributions from non-controlling interest		**—**	63,410
Repayment of Morguard Facility		**(103,297)**	(215,742)
Proceeds from Morguard Facility		**96,293**	274,279
Distributions to Unitholders		**(21,818)**	(20,934)
Distributions to non-controlling interest		**(4,048)**	(1,852)
Decrease (increase) in restricted cash		**(2,539)**	1,161
Cash provided by (used in) financing activities		**(23,422)**	298,706
Net increase (decrease) in cash during the year		**(8,456)**	19,220
Net effect of foreign currency translation on cash balance		**121**	(1,686)
Cash, beginning of year		**25,121**	7,587
Cash, end of year		**$16,786**	$25,121

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 2018 and 2017
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 December 31, 2018, Morguard Corporation ("Morguard"), the parent company of the REIT, holds an indirect 46.9% interest through its ownership of 6,675,166 Units and 17,223,090 Class B LP Units.

NOTE 2
STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements were approved and authorized for issue by the Board of Trustees on February 12, 2019.

Basis of Presentation

The REIT's consolidated financial statements are prepared on a going-concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The consolidated financial statements are prepared on a historical cost basis, except for real estate properties and certain financial instruments that are measured at fair value. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

Basis of Consolidation

The REIT holds its interest in the real estate properties and other assets and liabilities related to these properties directly or indirectly through the Partnership. The consolidated financial statements include the financial statements of the REIT, as well as the entities that are controlled by the REIT ("subsidiaries"). The REIT controls an entity when the REIT is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date of acquisition or the date on which the REIT obtains control and are deconsolidated from the date that control ceases. Intercompany transactions, balances, unrealized losses and unrealized gains on transactions between the REIT and its subsidiaries are eliminated.

Non-Controlling Interest

Non-controlling interests represent equity interests in subsidiaries that are not attributable to the REIT. For all of the REIT's subsidiaries, the share of the net assets of the subsidiaries that is attributable to non-controlling interest is presented as a component of equity.

Income Producing Properties

Income producing properties include multi-suite residential properties held to earn rental income. An income producing property that is acquired as an asset purchase and not as a business combination is recorded initially at cost, including transaction costs. Transaction costs include transfer taxes and professional fees for legal and other services.

Subsequent to initial recognition, income producing properties are recorded at fair value. The changes in fair value for each reporting period will be recorded in the consolidated statements of income. In order to avoid double counting, the carrying value of income producing properties includes all capital expenditures associated with upgrading and extending the economic life of the existing properties since these amounts are incorporated in the appraised values of the income producing properties. Fair value is based on valuations using the direct capitalization income method. Recent real estate transactions with characteristics and locations similar to the REIT's assets are also considered. The direct capitalization income method applies a capitalization rate to the property's stabilized net operating income, which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the property. The resulting appraised value is further adjusted, where appropriate, for non-recurring costs to stabilize the income.

Properties Under Development

The cost of properties under development includes all expenditures incurred in connection with the acquisition, including all direct development costs, realty taxes and other costs to prepare it for its productive use and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on the purchase price of a site or property acquired specifically for redevelopment in the short term if the activities necessary to prepare the asset for development or redevelopment are in progress. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The REIT considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this consideration occurs on completion of construction and receipt of all necessary occupancy and other material permits.

Real estate properties under development are measured at fair value, with changes in fair value being recognized in the consolidated statements of income when fair value can be reliably determined.

Interests in Joint Arrangements

The REIT reviews its interests in joint arrangements and accounts for those joint arrangements in which the REIT is entitled only to the net assets of the arrangement as joint ventures using the equity method of accounting and for those joint arrangements in which the REIT is entitled to its share of the assets and liabilities as joint operations and recognizes its rights to and obligations of the assets, liabilities, revenue and expenses of the joint operation.

Classification of Units, Class B LP Units and Class C LP Units

Units

Units meet the definition of a financial liability under IFRS as the redemption feature of the Units creates an unavoidable contractual obligation to pay cash (or another financial instrument such as notes payable if redemptions exceed $50 in a given month).

Units are redeemable at the option of the holder and, therefore, are considered "puttable instruments" in accordance with International Accounting Standard ("IAS") 32, *"Financial Instruments - Presentation"* ("IAS 32"). IAS 32 allows puttable instruments to be presented as equity provided the instrument meets all of the following conditions: (i) it must entitle the holder to a *pro rata* share of the entity's net assets in the event of the entity's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in point (ii) must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instruments must be based substantially on the profit or loss of the entity or change in fair value of the entity over the life of the instrument. The Units meet these criteria and, accordingly, are presented as equity in the consolidated financial statements and the distributions declared on the Units are deducted from retained earnings.

Class B LP Units
The Class B limited partnership units of the Partnership ("Class B LP Units") are exchangeable into Units at the option of the holder. As a result of this obligation, the Class B LP Units are exchangeable into a liability (as the Units are a liability by definition) and, accordingly, the Class B LP Units are also considered to be a liability and do not qualify for the exception in IAS 32 to be presented as equity. The distributions paid on the Class B LP Units are classified as interest expense in the consolidated statements of income.

Class C LP Units
Morguard retained the mortgages on four properties ("Retained Debt") that were sold to the REIT 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 limited partnership units of the Partnership ("Class C LP Units") on which distribution payments will be made in an amount expected to be sufficient to permit Morguard to satisfy amounts payable with respect to: (i) the 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.

Financial Instruments

Recognition and Measurement of Financial Instruments
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. Initially, all financial assets and financial liabilities are recorded in the consolidated balance sheets at fair value. After initial recognition, the effective interest related to financial assets and liabilities measured at amortized cost and the gain or loss arising from the change in the fair value of financial assets or liabilities classified as FVTPL are included in net income for the year in which they arise. At each consolidated balance sheet date, financial assets measured at amortized cost or at FVTOCI, except for investments in equity instruments, require an impairment analysis using the expected credit loss model ("ECL model") to determine the expected credit losses using judgment determined on a probability weighting basis.

The following summarizes the REIT's classification and measurement of financial assets and liabilities:

	Classification	Measurement
Financial Assets		
Amounts receivable	Amortized cost	Amortized cost
Morguard Facility	Amortized cost	Amortized cost
Restricted cash	Amortized cost	Amortized cost
Cash	Amortized cost	Amortized cost
Financial Liabilities		
Mortgages payable and Class C LP Units	Amortized cost	Amortized cost
Convertible debentures, excluding conversion option	Amortized cost	Amortized cost
Morguard Facility	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Finance lease obligation	Amortized cost	Amortized cost
Conversion option of convertible debentures	FVTPL	FVTPL
Class B LP Units	FVTPL	FVTPL

Transaction Costs
Direct and indirect financing costs that are attributable to the issue of financial liabilities measured at amortized cost are presented as a reduction from the carrying amount of the related debt and are amortized using the effective interest rate method over the term of the related debt. These costs include interest, amortization of discounts or premiums relating to borrowings, fees and commissions paid to lenders, agents, brokers and advisers, and transfer taxes and duties that are incurred in connection with the arrangement of borrowings.

Fair Value
The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

Fair value measurements recognized in the consolidated balance sheets are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

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

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

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with remaining maturities at the time of acquisition of three months or less.

Convertible Debentures
Convertible debentures issued by the REIT are convertible into Units at the option of the holder, and the number of Units to be issued does not vary with changes in their fair value.

Upon issuance, convertible debentures are separated into their debt and conversion feature components. The debt component of the convertible debentures is recognized initially at the fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature component of the convertible debentures is recognized at fair value using the Black-Scholes option pricing model as at each consolidated balance sheet date. The convertible debentures are convertible into Units at the holder's option. As a result of this obligation, the convertible debentures are exchangeable into a liability since the Units are puttable instruments that meet the definition of a financial liability under IAS 32. Accordingly, the conversion feature component of the convertible debentures is recorded in the consolidated balance sheets as a liability, measured at fair value, with changes in fair value recognized in the consolidated statements of income.

Any directly attributable transaction costs are allocated to the debt and conversion components of the convertible debentures in proportion to their initial carrying amounts.

Revenue Recognition
Revenue from income producing properties includes rents from tenants under leases and property management and ancillary income (such as utilities, parking and laundry) paid by the tenants under the terms of their existing leases. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the REIT expects to be entitled in exchange for those goods or services. The REIT has not transferred substantially all of the risks and benefits of ownership of its income producing properties and, therefore, accounts for leases with its tenants as operating leases.

Rental income from tenants under leases include lease components within the scope of IAS 17, "*Leases*" and are comprised of rental income and a recovery of property taxes and insurance. Rental income is accounted for on a straight-line basis over the lease terms. Property tax and insurance recoveries are recognized as revenue in the period in which they are earned. Any suite-specific incentives offered or initial direct costs incurred in negotiating and arranging an operating lease are reflected in the consolidated balance sheets in the carrying value of income producing properties and are amortized over the term of the operating lease and recognized in the consolidated statements of income on a straight-line basis.

Property management and ancillary income are considered non-lease components and are within the scope of IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15"). The performance obligation for property management and ancillary services is satisfied over time. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is separated into more than one performance obligation, the REIT allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach. The REIT applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Income Taxes

The REIT is a "mutual fund trust" pursuant to the *Income Tax Act* (Canada) (the "Act"). Under current tax legislation, a real estate investment trust 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 real estate investment trust and to make distributions of not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes in Canada. Accordingly, no current or deferred income taxes have been recorded in the consolidated financial statements for the REIT's Canadian properties.

However, the REIT's U.S. properties are held by U.S. subsidiaries that are taxable legal entities. The REIT uses the liability method of accounting for U.S. income taxes. Under the liability method of tax allocation, current income tax assets and liabilities are based on the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted as at the consolidated balance sheet dates. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amounts of deferred income tax assets are reviewed as at each consolidated balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

In accordance with IAS 12, *"Income Taxes"* ("IAS 12"), the REIT measures deferred income tax assets and liabilities on its U.S. income producing properties based on the rebuttable presumption that the carrying amount of the income producing property is recovered through sale, as opposed to presuming that the economic benefits of the income producing property will be substantially consumed through use over time. This presumption is rebutted if the property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the income producing property over time rather than through sale.

Foreign Exchange

The operations of the REIT's U.S.-based subsidiaries are in United States dollars, which are the functional currency of the foreign subsidiaries. Accordingly, the assets and liabilities of foreign subsidiaries are translated into Canadian dollars at the exchange rate as at the consolidated balance sheet dates. Revenue and expenses are translated at the average rate of exchange for the year. The resulting gains and losses are recorded in other comprehensive income ("OCI"). Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the reporting date. Exchange differences are recognized in profit or loss, except for exchange differences arising from a monetary item receivable from or payable to a foreign subsidiary, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign subsidiary. These exchange differences are recognized in OCI until the disposal of the net investment, at which time they are reclassified to profit or loss.

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

	2018	2017
Canadian dollar to United States dollar exchange rates:		
- As at December 31	**$0.7330**	$0.7971
- Average for the year ended December 31	**0.7718**	0.7701
United States dollar to Canadian dollar exchange rates:		
- As at December 31	**1.3642**	1.2545
- Average for the year ended December 31	**1.2957**	1.2986

Distributions
Distributions are recognized as a deduction from retained earnings for the Units classified as equity and as interest expense for Class B LP Units classified as a liability.

Reportable Operating Segments
Reportable operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The REIT has determined that its chief operating decision-maker is the Chairman and Chief Executive Officer.

Critical Judgments in Applying Accounting Policies
The following are the critical judgments that have been made in applying the REIT's accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

Income Producing Properties
The REIT's accounting policies relating to income producing properties are described above. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. The key assumptions in the valuation of the REIT's income producing properties are further defined in Note 5.

Joint Arrangements
The REIT applies judgment to determine whether the joint arrangements provided it with joint control, significant influence or no influence and whether the arrangements are joint operations or joint ventures.

Basis of Consolidation
The REIT's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining whether "control" exists within the framework of IFRS 10, *"Consolidated Financial Statements."*

Revenue Recognition
The REIT applies judgment about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The REIT concluded that revenue for property management and ancillary services is to be recognized over time because the tenant simultaneously receives and consumes the benefits provided by the REIT. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is identified as containing more than one performance obligation, the REIT allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach.

Income Taxes
Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders during the year. The REIT is a real estate investment trust if it meets prescribed conditions under the Act relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's Canadian assets and revenue, and it has determined that it qualifies as a real estate investment trust. The REIT expects to qualify as a real estate investment trust under the Act; however, should it no longer qualify, it would not be able to flow through its taxable income to Unitholders, and the REIT would, therefore, be subject to tax on its Canadian properties.

Critical Accounting Estimates and Assumptions
The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods.

In determining estimates of fair market value for the REIT's income producing properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Significant estimates used in determining fair value of the REIT's income producing properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates, inflation rates and operating costs). Should any of these underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of income producing properties are outlined in Note 5.

NOTE 3
ADOPTION OF ACCOUNTING STANDARDS
Current Accounting Policy Changes
IFRS 15, *"Revenue from Contracts with Customers"*
In May 2014, the IASB issued IFRS 15, a single comprehensive model to account for revenue arising from contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The REIT adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively.

The REIT completed its assessment of the impact of IFRS 15 and determined the pattern of revenue recognition remains unchanged upon adoption of the standard. The assessment included a review of contracts for all revenue streams including rental income and ancillary income (such as utilities, parking and laundry). The impact was limited to additional note disclosure (Note 13) on the disaggregation of some of the REIT's revenue streams noted above.

Accounting policies in accordance with IAS 18, *"Revenue"* apply to comparative information for 2017 in the REIT's consolidated financial statements. The REIT did not restate the comparative period upon adoption of IFRS 15.

Amendment to IAS 40, *"Investment Property"* ("IAS 40")
During December 2016, the IASB issued an amendment to IAS 40, clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018.

The amendment did not have a material impact on the REIT's consolidated financial statements.

IFRS 9 (2014), *"Financial Instruments"* ("IFRS 9")
The final version of IFRS 9 was issued by the IASB in July 2014, and will replace IAS 39, *"Financial Instruments: Recognition and Measurement"* ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and liabilities within the scope of the current IAS 39 and a new expected loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or FVTPL and to measure equity-based financial assets either as FVTPL or as FVTOCI. No amounts are reclassified out of OCI if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The REIT adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively with no restatement of comparative periods.

Classification and Measurement
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets must be classified and measured based on three categories: amortized cost, FVTOCI and FVTPL. Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are "solely payments of principal and interest" ("SPPI") on the principal amounts outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The adoption of the new classification requirements under IFRS 9 did not result in changes in the measurement or the carrying amount of financial assets and liabilities.

The following table summarizes the impact of the adoption of IFRS 9 on the classification of the REIT's financial assets and liabilities:

	Classification under IAS 39	Classification under IFRS 9
Financial Assets		
Amounts receivable	Loans and receivables	Amortized cost
Morguard Facility	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Financial Liabilities		
Mortgages payable and Class C LP Units	Other financial liabilities	Amortized cost
Convertible debentures, excluding conversion option	Other financial liabilities	Amortized cost
Morguard Facility	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Finance lease obligation	Other financial liabilities	Amortized cost
Conversion option of convertible debentures	FVTPL	FVTPL
Class B LP Units	FVTPL	FVTPL

Impairment - Expected Credit Loss Model
IFRS 9 replaced the "incurred loss" model in IAS 39 with a forward-looking ECL model. The ECL model requires a more timely recognition of expected credit losses using judgment determined on a probability-weighting basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at FVTOCI, except for investments in equity instruments. The adoption of the ECL model did not have a material impact on the REIT's consolidated financial statements.

General Hedge Accounting Model
IFRS 9 requires the REIT to ensure that hedge accounting relationships are aligned with the REIT's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The REIT does not currently have any hedging activities and the adoption did not have an impact on the REIT's consolidated financial statements.

Accounting policies in accordance with IAS 39 apply to comparative information for 2017 in the REIT's consolidated financial statements. The REIT did not restate the comparative period upon adoption of IFRS 9.

Future 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 using the same classification principle as in IAS 17 and distinguish between an operating or finance lease. This standard will be effective for annual periods beginning on or after January 1, 2019.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognize separately the interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset. The standard includes two recognition exemptions for leases: leases of "low-value" assets and short-term leases. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The REIT has completed the issue identification phase and impact assessment of the transition project. As a landlord, lessor accounting is substantially unchanged between IAS 17 and IFRS 16. The REIT does not expect the standard to have a substantial impact as lessor accounting is substantially unchanged under IFRS 16 and, therefore, leases with tenants are to be accounted for as operating leases in a consistent manner with the current accounting treatment. The REIT has reviewed all lease contracts in which it is a lessee and has noted that the adoption of IFRS 16 is not expected to have a material impact on the REIT's consolidated financial statements. The REIT will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

IFRIC Interpretation 23, "*Uncertainty over Income Tax Treatment*" ("IFRIC 23")

IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of 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. The Interpretation 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 IFRIC Interpretation is not expected to have a material impact on the REIT's consolidated financial statements.

NOTE 4
SUBSIDIARIES WITH NON-CONTROLLING INTEREST

As at December 31, 2018, the REIT owns a 51% effective interest in a limited partnership (the "LP"). The LP owns a garden-style property comprising 252 suites located in Cooper City, Florida ("2940 Solano at Monterra") and a high-rise property comprising 515 suites and approximately 20,000 square feet of commercial area located in Chicago, Illinois ("Coast at Lakeshore East").

The following summarizes the results of the REIT's material subsidiaries with non-controlling interest before any intercompany eliminations and the corresponding non-controlling interest in the equity of the LP.

As at December 31	2018	2017
Non-current assets	**$392,617**	$370,705
Current assets	**2,345**	3,478
Total assets	**$394,962**	$374,183
Non-current liabilities	**$205,753**	$189,596
Current liabilities	**5,123**	3,941
Total liabilities	**$210,876**	$193,537
Equity	**$184,086**	$180,646
Non-controlling interest	**$90,202**	$88,517

For the years ended December 31	2018	2017
Revenue from income producing properties	**$27,519**	$11,152
Expenses	**(19,728)**	(7,735)
Fair value gain (loss) on income producing properties	**(12,282)**	16,199
Net income (loss) for the year	**($4,491)**	$19,616
Non-controlling interest	**($2,201)**	$9,612

For the years ended December 31	2018	2017
Cash provided by (used in) operating activities	**$8,965**	($2,499)
Cash provided by (used in) investing activities	**(2,113)**	292,618
Cash used in financing activities	**(8,315)**	(288,929)
Net increase (decrease) in cash during the year	**($1,463)**	$1,190

NOTE 5
REAL ESTATE PROPERTIES

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

As at December 31	Income Producing Properties	Property Under Development	2018 Total	2017 Total
Balance, beginning of year	**$2,570,589**	**$—**	**$2,570,589**	$2,224,670
Additions:				
Acquisition of income producing properties	**—**	**—**	**—**	375,246
Acquisition of property under development	**—**	**14,866**	**14,866**	—
Capital expenditures	**28,950**	**—**	**28,950**	21,577
Development expenditures	**—**	**1,165**	**1,165**	—
Dispositions	**—**	**—**	**—**	(88,685)
Fair value gain (loss), net	**180,588**	**(305)**	**180,283**	130,500
Foreign currency translation	**134,763**	**991**	**135,754**	(92,750)
Other	**1,228**	**—**	**1,228**	31
Balance, end of year	**$2,916,118**	**$16,717**	**$2,932,835**	$2,570,589

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 expects to complete capital upgrades to the property during the first half of 2019, at which point initial lease-up will commence.

As at December 31, 2018 and 2017, 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.

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 appraisal team's valuation processes and results are reviewed by members of the REIT's senior management at least once every quarter, in line with the REIT's quarterly reporting dates.

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 December 31, 2018, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 7.8% (2017 - 4.3% to 8.0%) applied to a stabilized net operating income of $138,449 (2017 - $126,894), resulting in an overall weighted average capitalization rate of 4.7% (2017 - 4.9%).

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 December 31, 2018 would decrease by $145,903 or increase by $162,349, respectively.

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

	December 31, 2018					December 31, 2017				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Canada										
Alberta	**96.0%**	**96.0%**	**5.0%**	**5.0%**	**5.0%**	96.0%	96.0%	5.0%	5.0%	5.0%
Ontario	**97.0%**	**96.0%**	**4.5%**	**4.0%**	**4.2%**	97.0%	95.0%	4.5%	4.3%	4.4%
United States										
Colorado	**95.0%**	**95.0%**	**5.3%**	**5.3%**	**5.3%**	95.0%	95.0%	5.5%	5.5%	5.5%
Texas	**95.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	95.0%	94.0%	5.5%	5.3%	5.3%
Louisiana	**97.0%**	**90.0%**	**7.8%**	**5.5%**	**6.8%**	97.0%	90.0%	8.0%	5.8%	7.0%
Illinois	**95.0%**	**95.0%**	**4.5%**	**4.5%**	**4.5%**	95.0%	95.0%	4.5%	4.5%	4.5%
Georgia	**96.0%**	**95.0%**	**5.5%**	**5.0%**	**5.4%**	96.0%	95.0%	5.8%	5.3%	5.6%
Florida	**95.0%**	**93.5%**	**6.5%**	**5.0%**	**5.5%**	95.0%	93.6%	7.0%	5.0%	5.7%
North Carolina	**94.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	94.1%	94.0%	5.5%	5.3%	5.4%
Virginia	**95.0%**	**95.0%**	**4.8%**	**4.8%**	**4.8%**	95.0%	95.0%	4.8%	4.8%	4.8%

NOTE 6
EQUITY-ACCOUNTED INVESTMENT

On August 17, 2017, the REIT acquired a 50% interest in a property comprising 492 suites located in Rockville, Maryland, in which the REIT has a net investment of $40,080 (US$31,691). 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 December 31	2018	2017
Balance, beginning of year	**$37,295**	$—
Additions	**—**	40,080
Share of net income (loss)	**271**	(1,169)
Distributions received	**—**	(1,276)
Foreign exchange gain (loss)	**3,293**	(340)
Balance, end of year	**$40,859**	$37,295

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

As at December 31	2018	2017
Non-current assets	**$176,118**	$162,207
Current assets	**3,863**	2,945
Total assets	**$179,981**	$165,152
Non-current liabilities	**$95,997**	$88,174
Current liabilities	**2,266**	2,388
Total liabilities	**$98,263**	$90,562
Net assets	**$81,718**	$74,590
Equity-accounted investment	**$40,859**	$37,295

For the years ended December 31	2018	2017
Revenue	**$13,179**	$4,862
Expenses	**(11,072)**	(2,872)
Fair value loss on income producing property	**(1,565)**	(4,328)
Net income (loss) for the year	**$542**	($2,338)
Income (loss) in equity-accounted investment	**$271**	($1,169)

NOTE 7

MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at December 31			2018	2017
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,243,887**	**$81,923**	**$1,325,810**	$1,263,879
Deferred financing costs	**(13,636)**	**(787)**	**(14,423)**	(15,846)
Mark-to-market adjustment	**—**	**—**	**—**	436
Present value of tax payment on Class C LP Units	**—**	**8,740**	**8,740**	8,580
	$1,230,251	**$89,876**	**$1,320,127**	$1,257,049
Current	**$121,429**	**$2,989**	**$124,418**	$84,000
Non-current	**1,108,822**	**86,887**	**1,195,709**	1,173,049
	$1,230,251	**$89,876**	**$1,320,127**	$1,257,049
Range of interest rates	**2.25-4.25%**	**3.97%**	**2.25-4.25%**	2.25-5.21%
Weighted average interest rate	**3.45%**	**3.97%**	**3.49%**	3.50%
Weighted average term to maturity (years)	**6.0**	**2.5**	**5.8**	6.2
Fair value of mortgages and Class C LP Units	**$1,239,641**	**$83,865**	**$1,323,506**	$1,259,922

Morguard retained the mortgages on four properties that were sold to the REIT 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.

On April 30, 2018, the REIT completed the refinancing of a U.S. multi-suite residential property located in Fort Collins, Colorado, in the amount of $34,914 (US$27,200) at an interest rate of 4.11%, for a term of 10 years.

On May 1, 2018, the REIT completed the refinancing of a U.S. multi-suite residential property located in Raleigh, North Carolina, in the amount of $45,086 (US$35,040) at an interest rate of 4.04%, for a term of 10 years.

As at December 31, 2018, the mortgages directly held by the REIT and the Class C LP Units bear interest at rates ranging between 2.25% and 4.25% per annum, with a weighted average interest rate of 3.49% (2017 - 3.50%) and mature between 2019 and 2029, with a weighted average term to maturity of 5.8 years (2017 - 6.2 years).

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 December 31, 2018, 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	$22,731	$104,607	$127,338	3.21%
2020	24,499	8,828	33,327	4.25%
2021	25,494	75,280	100,774	3.97%
2022	25,782	72,027	97,809	3.76%
2023	21,908	172,815	194,723	3.46%
Thereafter	42,926	728,913	771,839	3.44%
	$163,340	$1,162,470	$1,325,810	3.49%

NOTE 8
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31	2018	2017
4.65% convertible unsecured subordinated debentures	**$—**	$59,806
4.50% convertible unsecured subordinated debentures	**85,223**	—
Fair value of conversion option	**2,469**	798
Unamortized financing costs	**(2,923)**	(138)
	$84,769	$60,466
Current	**$—**	$60,466
Non-current	**84,769**	—
	$84,769	$60,466

For the year ended December 31, 2018, interest on the convertible debentures amounting to $3,822 (2017 - $2,790) is included in interest expense (Note 14). As at December 31, 2018, $980 (2017 - $711) is included in accounts payable and accrued liabilities.

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. Interest was payable semi-annually, not in advance, on March 31 and September 30 of each year. The underwriters' commissions attributable to the 2013 Debentures in the amount of $2,062 have been capitalized and amortized over the term to maturity. Morguard owned $5,000 aggregate principal amount of the 2013 Debentures.

Each of the 2013 Debentures can be converted into fully paid, non-assessable and freely tradable Units at any time prior to the close of business on the last business day immediately preceding the maturity date or, if such 2013 Debentures have been called for redemption, then up to, but not after, the close of business on the last business day immediately preceding the date fixed for redemption at a conversion price of $15.50 per Unit, being the ratio of approximately 64.5161 Units per $1,000 principal amount of the 2013 Debentures.

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.

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 December 31, 2018, $85,500 of the face value of the 2018 Debentures was outstanding.

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

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

NOTE 9
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 December 31, 2018, 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 $295,376 (2017 - $258,863) and a corresponding fair value loss for the year ended December 31, 2018 of $36,513 (2017 - $24,285).

For the year ended December 31, 2018, distributions on Class B LP Units amounting to $11,422 (2017 - $11,081) are included in interest expense (Note 14).

As at December 31, 2018 and 2017, there were 17,223,090 Class B LP Units issued and outstanding.

NOTE 10
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 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. As at December 31, 2017, the net amount payable under the Morguard Facility was $21,799, comprising an amount receivable of US$3,258 and a payable of $25,886.

During the year ended December 31, 2018, the REIT incurred on the Morguard Facility net interest expense of $19 (2017 - $501).

As part of Morguard’s asset management arrangement, Morguard will make payments on behalf of the REIT and charge the Morguard Facility. These transactions are reflected in the consolidated statements of cash flows. Borrowings under the Morguard Facility are considered to be financing activities.

NOTE 11
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at December 31	**2018**	2017
Accounts payable and accrued liabilities	**$35,123**	$33,478
Tenant deposits	**11,305**	10,284
Finance lease obligation	**9,754**	8,970
	$56,182	$52,732
Current	**$46,428**	$43,762
Non-current	**9,754**	8,970
	$56,182	$52,732

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

As at December 31	**2018**	2017
Within 12 months	**$425**	$377
2 to 5 years	**1,868**	1,677
Over 5 years	**12,806**	12,205
Total minimum lease payments	**15,099**	14,259
Less: Future interest costs	**(5,345)**	(5,289)
Present value of minimum lease payments	**$9,754**	$8,970

NOTE 12
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.

Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption will be surrendered and the holder will be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the market price of the Units on the principal exchange market on which the Units are listed or quoted for trading during the 10 consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; or (ii) 100% of the closing market price on the principal exchange market on which the Units are listed or quoted for trading on the redemption date.

The total amount payable by the REIT, with respect to any Units surrendered for redemption during any calendar month, will not exceed $50 unless waived at the discretion of the Trustees and will be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price payable with respect to Units surrendered for redemption exceeds $50 in any given month, such excess will be redeemed for cash or another financial instrument such as notes payable.

(b) Normal Course Issuer Bids

The REIT had the approval of the TSX under its normal course issuer bid (“NCIB”) to purchase up to 2,552,924 Units and $5,500 principal amount of the 2013 Debentures. The program expired on December 20, 2018. On December 13, 2018, the REIT obtained the approval of the TSX under its 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 years ended December 31, 2018 and 2017.

(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, 2016, to December 31, 2018:

Issued and Fully Paid Units	Units	Amount
Balance, December 31, 2016	29,291,158	$309,803
Issuance of Units for cash, net of costs	4,370,000	57,686
Units issued under the DRIP	29,455	439
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**

Total distributions declared during the year ended December 31, 2018, amounted to $22,355, or $0.6632 per Unit (2017 - $21,663, or $0.6433 per Unit), including distributions payable of $1,909 that were declared on December 14, 2018, and paid on January 15, 2019. On January 15, 2019, the REIT declared a distribution of $0.0566 per Unit payable on February 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 year ended December 31, 2018, the REIT issued 30,784 Units under the DRIP (2017 - 29,455 Units).

(f) Accumulated Other Comprehensive Income

The accumulated other comprehensive income consists of the following amounts:

As at December 31	2018	2017
Unrealized foreign currency translation gain	**$118,625**	$64,917
Balance, end of year	**$118,625**	$64,917

NOTE 13
RENTAL INCOME

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

For the years ended December 31	2018	2017
Rental income	**$117,415**	$108,666
Property management and ancillary income	**90,751**	87,284
Property tax and insurance	**33,202**	30,545
	$241,368	$226,495

NOTE 14
INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31	2018	2017
Interest on mortgages	**$41,903**	$38,948
Interest and tax payment on Class C LP Units	**3,848**	3,959
Interest on the convertible debentures (Note 8)	**3,822**	2,790
Interest on finance lease	**389**	160
Amortization of mark-to-market adjustment on mortgages	**(443)**	(2,282)
Amortization of deferred financing costs	**2,964**	3,154
Amortization of deferred financing costs on the convertible debentures	**591**	530
Fair value loss on conversion option on the convertible debentures	**1,587**	157
	54,661	47,416
Distributions on Class B LP Units (Note 9)	**11,422**	11,081
	$66,083	$58,497

NOTE 15
TRUST EXPENSES

The components of trust expenses are as follows:

For the years ended December 31	2018	2017
Asset management fees and distributions	**$11,138**	$10,353
Professional fees	**1,152**	1,029
Public company expenses	**641**	574
Other	**834**	662
	$13,765	$12,618

NOTE 16
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 7, 8, 9 and 10, related party transactions also include the following:

(a) 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. For the year ended December 31, 2018, fees and distributions amounting to $8,422 (2017 - $7,969) are included in property operating costs and equity income (loss) from investment. As at December 31, 2018, $654 (2017 - $915) 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. For the year ended December 31, 2018, fees and distributions amounting to $11,350 (2017 - $10,438) are included in trust expenses and equity income (loss) from investment. As at December 31, 2018, $5,469 (2017 - $5,336) 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. For the year ended December 31, 2018, fees relating to acquisition services amounted to $110 (2017 - $2,004).

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. For the year ended December 31, 2018, fees relating to financing services amounted to $121 (2017 - $421) 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. There were no fees relating to development services for the years ended December 31, 2018 and 2017.

Other Services

During the years ended December 31, 2018 and 2017, the REIT had its portfolio appraised by Morguard’s appraisal division. For the year ended December 31, 2018, fees relating to appraisal services amounted to $232 (2017 - $232) and are included in trust expenses.

(b) Key Management Compensation

The executive officers of the REIT are employed by Morguard, and the REIT does not directly or indirectly pay any compensation to them. Any variability in compensation paid by Morguard to the executive officers of the REIT has no impact on the REIT's financial obligations, including its obligations under the various Agreements with Morguard and Morguard's affiliates.

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.

NOTE 17
INCOME TAXES

The REIT is a "mutual fund trust" pursuant to 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.

(a) Income Tax Expense (Recovery):

For the years ended December 31	2018	2017
Current income taxes	**$233**	$826
Deferred income taxes		
Impact of foreign tax rates	**$23,155**	$30,743
Impact of change in foreign tax rate	**393**	(44,734)
Recognition of the benefit of tax losses	**(910)**	(2,937)
Other	**650**	(3,418)
	$23,288	($20,346)
Income tax expense (recovery)	**$23,521**	($19,520)

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 tax. On December 22, 2017, the *Tax Cuts and Jobs Act of 2017* was signed into law, making significant changes to the Internal Revenue Code. The changes having the most significant impact on the REIT's U.S. subsidiaries include, but are not limited to, a federal tax rate decrease from 35% to 21%, effective for taxation years beginning after December 31, 2017, the accelerated depreciation of residential real properties, and the limitation of interest expense deduction. The amount related to the re-measurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future resulted in a deferred tax recovery of $44,734 being recorded in the fourth quarter of 2017. During the second quarter of 2018, the REIT completed the analysis of income tax effects of limitation of interest expense deduction and, as at December 31, 2018, the REIT's U.S. subsidiaries have a total of US$8,172 (2017 - US$nil) of unutilized interest expense deductions of which deferred tax assets were recognized.

(b) The Major Components of Deferred Income Tax Liabilities:

As at December 31	2018	2017
Real estate properties	**$120,954**	$82,812
Mark-to-market adjustment on mortgages payable	**—**	(107)
Net operating losses	**(3,623)**	—
Interest expense limitation	**(2,799)**	—
Other	**(181)**	(223)
Total net deferred income tax liabilities	**$114,351**	$82,482

(c) The REIT's Tax Losses:

As at December 31, 2018, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$30,075 (2017 - US$33,587) 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.

NOTE 18

CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

For the years ended December 31	2018	2017
Fair value gain on real estate properties, net	**($180,283)**	($130,484)
Fair value loss on Class B LP Units	**36,513**	24,285
Fair value loss on conversion option on the convertible debentures	**1,587**	157
Equity loss (income) from investment	**(271)**	1,169
Amortization of deferred financing - mortgages	**2,665**	2,855
Amortization of deferred financing - Class C LP Units	**299**	299
Amortization of deferred financing - convertible debentures	**591**	530
Present value adjustment of tax liability on Class C LP Units	**555**	544
Amortization of mark-to-market adjustment on mortgages	**(443)**	(2,282)
Amortization of tenant incentives	**892**	219
Deferred income taxes	**23,288**	(20,346)
	($114,607)	($123,054)

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

For the years ended December 31	2018	2017
Amounts receivable	**$1,241**	($1,490)
Prepaid expenses	**(104)**	(1,101)
Accounts payable and accrued liabilities	**827**	10,964
	$1,964	$8,373

(c) Supplemental Cash Flow Information

For the years ended December 31	2018	2017
Interest paid	**$48,429**	$45,774

(d) Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities:

As at December 31, 2018	Mortgages Payable and Class C LP Units	Convertible Debentures	Morguard Facility	Finance Lease Obligation	Total
Balance, beginning of year	**$1,257,049**	**$60,466**	**$21,799**	**$8,970**	**$1,348,284**
Repayments	**(21,364)**	**—**	**(103,297)**	**(389)**	**(125,050)**
New financing, net	**79,095**	**82,125**	**96,293**	**—**	**257,513**
Lump-sum repayments	**(67,892)**	**(59,977)**	**—**	**—**	**(127,869)**
Non-cash changes	**3,076**	**2,155**	**—**	**389**	**5,620**
Foreign exchange	**70,163**	**—**	**(1,992)**	**784**	**68,955**
Balance, end of year	**$1,320,127**	**$84,769**	**$12,803**	**$9,754**	**$1,427,453**

NOTE 19
MANAGEMENT OF CAPITAL

The REIT defines capital that it manages as the aggregate of its Unitholders' equity, Class B LP Units, mortgages payable and Class C LP Units, convertible debentures, Morguard Facility payable and finance lease obligation. The REIT's objective when managing capital is to ensure that the REIT will continue as a going concern so that it can sustain daily operations and provide adequate returns to its Unitholders.

The REIT is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt. The REIT mitigates these risks by its continued efforts to stagger the maturity profile of its long-term debt, enhance the value of its real estate properties, maintain high occupancy levels and foster excellent relations with its lenders. The REIT manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the REIT as at December 31, 2018 and 2017, is summarized below:

As at December 31	2018	2017
Mortgages payable, principal balance	**$1,243,887**	$1,178,796
Class C LP Units and present value of tax payment, principal balance	**90,663**	93,663
Convertible debentures, face value	**85,500**	60,000
Morguard Facility	**12,803**	21,799
Finance lease obligation	**9,754**	8,970
Class B LP Units	**295,376**	258,863
Unitholders' equity	**1,018,423**	814,342
	$2,756,406	$2,436,433

The REIT's primary objectives when managing capital are to maximize Unit value through the ongoing active management of the REIT's assets and the acquisition of additional real estate properties, which are leased to creditworthy tenants, as opportunities arise.

The REIT's strategy is also driven by policies as set out in the Declaration of Trust, as well as requirements from certain lenders.

The requirements of the REIT's operating policies as outlined in the Declaration of Trust include requirements that the REIT will not:

(a) Incur or assume indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of the REIT would be more than 70% of the gross book value (as defined in the Declaration of Trust) in accordance with IFRS; and

(b) Incur indebtedness aggregating more than 20% of gross book value (as defined in the Declaration of Trust) in accordance with IFRS at floating interest rates or having maturities of less than one year.

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

As at December 31	Borrowing Limits	2018	2017
Total debt to gross book value	70%	**47.9%**	51.4%
Floating-rate debt to gross book value	20%	**0.4%**	0.8%

NOTE 20
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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, finance lease obligation and convertible debentures. Fair values of financial assets and liabilities and discussion of risks associated with 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 these instruments.

Mortgages payable and Class C LP Units, finance lease obligation 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 December 31, 2018, market rates for debts of similar terms (Level 2). Based on these assumptions, as at December 31, 2018, 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 $1,239,641 and $83,865, (2017 - $1,171,797 and $88,125), respectively. The fair values of the mortgages payable and Class C LP Units vary from their carrying values due to fluctuations in market interest rates since their issue.

The fair value of the finance lease obligation is determined by discounting the cash flows of the financial obligation using December 31, 2018, market rates for debt on similar terms (Level 2). Based on these assumptions, as at December 31, 2018, the fair value of the finance lease obligation has been estimated at $9,754 (2017 - $8,970).

The fair values of the convertible debentures are based on their market trading price (Level 1). As at December 31, 2018, the fair value of the convertible debentures before deferred financing costs has been estimated at $85,500 (2017 - $60,000), compared with the carrying value of $85,223 (2017 - $59,806).

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:

	December 31, 2018			December 31, 2017		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$2,932,835**	$—	$—	$2,570,589
Financial liabilities:						
Class B LP Units	**295,376**	**—**	**—**	258,863	—	—
Conversion option of the convertible debentures	**—**	**2,469**	**—**	—	798	—

The REIT's convertible debentures have no restrictive covenants.

Risks Associated with Financial Assets and Liabilities

The REIT is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates and foreign exchange rates, credit risk and liquidity risk. The REIT's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the REIT's activities. The REIT aims to develop a disciplined control environment in which all employees understand their roles and obligations.

(a) Market Risk
Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices and comprises the following:

Interest Rate Risk
The REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be refinanced on terms as favourable as those of the existing indebtedness. As at December 31, 2018, the REIT had no outstanding balance of floating interest rate debt other than the Morguard Facility.

The REIT's objective when managing interest rate risk is to minimize the volatility of the REIT's income. As at December 31, 2018, interest rate risk has been minimized because all of the long-term debt is financed at fixed interest rates with maturities scheduled over a number of years.

In addition, all the mortgages on the Canadian properties are insured by the Canada Mortgage and Housing Corporation. This added level of insurance offered to lenders allows the REIT to receive advantageous interest rates while minimizing the risk of mortgage renewals or extensions.

Foreign Exchange Risk
The REIT is exposed to foreign exchange risk as it relates to its U.S. income producing properties due to fluctuations in the exchange rate between Canadian and United States dollars. Changes in the exchange rate may result in a reduction or an increase of reported earnings and OCI. For the year ended December 31, 2018, a $0.05 change in the United States to Canadian dollar exchange rate would have resulted in approximately a change to net income or loss of $2,756 and a change to other comprehensive income or loss of $26,382.

The REIT's objective when managing foreign exchange risk is to mitigate the exposure from fluctuations in the exchange rate by maintaining U.S. dollar denominated debt against its U.S. assets, which amounted to US$643,911 as at December 31, 2018 (2017 - US$638,490). The REIT currently does not hedge translation exposures.

(b) Credit Risk
Credit risk is the risk that: (i) one party to a financial instrument will cause a financial loss for the REIT by failing to discharge its obligations; and (ii) the possibility that tenants may experience financial difficulty and be unable to meet their rental obligations.

The REIT is exposed to credit risk on all financial assets, and its exposure is generally limited to the carrying value of the financial assets. The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits as permitted by legislation and regionally diversifying its portfolio.

The REIT monitors its collection process on a month-to-month basis to ensure that a stringent policy is adopted to provide for all past due amounts. All receivables from past tenants and tenant receivable balances exceeding 90 days are provided for as bad debt expense in the consolidated statements of income within property operating costs. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against property operating costs in the consolidated statements of income.

The following table sets forth details of trade receivables and the related allowance for doubtful accounts:

As at December 31	2018	2017
Trade receivables	**$1,378**	$1,684
Less: Allowance for doubtful accounts	**(463)**	(677)
Total trade receivables, net	**$915**	$1,007

(c) Liquidity Risk
Liquidity risk is the risk the REIT will encounter difficulties in meeting its financial liability obligations. The REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced. The REIT's objectives in minimizing liquidity risk are to maintain appropriate levels of leverage on its real estate assets and to stagger the debt maturity profile. As at December 31, 2018, the REIT was holding cash of $16,786 and had access to an additional $87,197 through the Morguard Facility.

NOTE 21
COMMITMENTS AND CONTINGENCIES
(a) Land Lease
The REIT assumed a land lease in connection with a property located in Falls Church, Virginia, that expires in 2113. The REIT has the option to purchase the land in September 2029 for US$7,150. The REIT has classified the land lease as a finance lease under the assumption that substantially all the risks and rewards incidental to ownership have been transferred.

The minimum annual rental payments for the land lease are payable over the next five years and thereafter as follows:

2019	US$311
2020	342
2021	342
2022	342
2023	342
Thereafter	88,541

The annual rental expenses on the land lease are as follows:

	Annual rental expense
From October 1, 2014 to September 30, 2019	US$300
From October 1, 2019 to September 30, 2024	342
From October 1, 2024 to September 30, 2029	396
Every 5 years thereafter	The greater of: (i) 1.1 times the rent for the fifteenth lease year (2029) and the last year of each fifth year lease year increment thereafter; or (ii) Index Adjustment

(b) Other
The REIT is involved in litigation and claims in relation to income producing properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the final position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

In the province of Ontario, the REIT is subject to, and believes it has complied with, the *Residential Tenancies Act, 2006* (Ontario). Each year, the Ontario government determines the province's residential rent increase for existing tenants. In 2018, the rental guideline increase was 1.8% (2017 - 1.5%).

NOTE 22
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, Alabama, 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:

	December 31, 2018			December 31, 2017		
For the years ended	Canada	U.S.	Total	Canada	U.S.	Total
Revenue from real estate properties	**$89,811**	**$151,557**	**$241,368**	$86,255	$140,240	$226,495
Property operating expenses	**(38,318)**	**(71,357)**	**(109,675)**	(38,235)	(65,524)	(103,759)
Net operating income	**$51,493**	**$80,200**	**$131,693**	$48,020	$74,716	$122,736

	December 31, 2018			December 31, 2017		
As at	Canada	U.S.	Total	Canada	U.S.	Total
Real estate properties	**$1,209,490**	**$1,723,345**	**$2,932,835**	$1,069,630	$1,500,959	$2,570,589
Mortgages payable and Class C LP Units	**$449,225**	**$870,902**	**$1,320,127**	$463,167	$793,882	$1,257,049

	December 31, 2018			December 31, 2017		
For the years ended	Canada	U.S.	Total	Canada	U.S.	Total
Additions to real estate properties	**$12,521**	**$32,460**	**$44,981**	$25,497	$371,326	$396,823
Fair value gain on real estate properties	**$127,369**	**$52,914**	**$180,283**	$89,532	$40,011	$129,543

NOTE 23
SUBSEQUENT EVENTS

Subsequent to December 31, 2018, the REIT repaid US$5,000 and Morguard advanced $1,000 under the Morguard Facility.

On February 1, 2019, the REIT sold a property located in Shreveport, Louisiana, comprising 194 suites, for gross proceeds of $13,750 (US$10,500) and the purchaser assumed the mortgage secured by the property in the amount of $6,980 (US$5,330).