MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONSOLIDATED FINANCIAL STATEMENTS

2019 FOURTH QUARTER
MORGUARD NORTH AMERICAN RESIDENTIAL REIT

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

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PART I

Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT" or the "REIT") is pleased to provide this review of operations and update on our financial performance for the year ended December 31, 2019. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per suite and REIT trust unit ("Unit") amounts.

The following Management's Discussion and Analysis ("MD&A") sets out the REIT's strategies and provides an analysis of the financial performance for the year ended December 31, 2019, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the REIT's audited consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 11, 2020. Disclosure contained in this document is current to that date unless otherwise noted.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

NON-IFRS FINANCIAL MEASURES

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

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

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

NOI is defined by the REIT as revenue from real estate properties less property operating costs, realty taxes and utilities as presented in the consolidated statements of income. 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 equity-accounted investment NOI at the REIT's 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 two U.S. properties, which are presented as equity income from investments in the consolidated statements of income, are adjusted to include its share of NOI in calculating Proportionate NOI.

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

SAME PROPERTY NOI / PROPORTIONATE NOI

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

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

INDEBTEDNESS

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

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

GROSS BOOK VALUE

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

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

INDEBTEDNESS TO GROSS BOOK VALUE RATIO

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

INTEREST COVERAGE RATIO

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

INDEBTEDNESS COVERAGE RATIO

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

FUNDS FROM OPERATIONS ("FFO")

FFO is a non-IFRS measure widely used as a real estate industry standard that supplements net income and evaluates operating performance but is not indicative of funds available to meet the REIT's cash requirements. FFO can assist with comparisons of the operating performance of the REIT's real estate between periods and relative to other real estate entities. FFO is computed by the REIT in accordance with the current definition of the Real Property Association of Canada ("REALpac") and is defined as net income 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 two U.S. properties under IFRS are presented on a single line within the consolidated balance sheet and statements of income and have 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.

PART II

BUSINESS OVERVIEW AND STRATEGY

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

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

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

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

SIGNIFICANT EVENTS

ISSUANCE OF UNITS

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

ACQUISITIONS / DISPOSITIONS

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

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

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

On December 9, 2019, the REIT acquired a 50% interest in the Marquee at Block 37, a property located in Chicago, Illinois, for a purchase price of US$268,580 (US$134,290 at the REIT’s 50% interest), including closing costs. The property is a 38-storey apartment building located in the heart of downtown Chicago and features 690 suites and extensive best-in-class amenities. Concurrent with the acquisition, the REIT secured financing in the amount of US$165,000 (US$82,500 at the REIT’s 50% interest), with a fixed term of 10 years and an interest rate of 3.27%.

DISTRIBUTIONS

On October 29, 2019, the REIT announced that its Board of Trustees has approved an increase to its annual cash distributions by $0.02 per Unit (2.94%) to $0.70 per Unit on an annualized basis from $0.68 per Unit. The increase was effective for the November 2019 distribution, paid on December 16, 2019.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at December 31 (In thousands of dollars, except as noted otherwise)	2019	2018
Operational Information		
Number of properties	**43**	47
Total suites	**13,277**	13,430
Occupancy percentage - Canada	**98.8%**	99.1%
Occupancy percentage - U.S.	**94.5%**	94.7%
AMR - Canada (in actual dollars)	**$1,432**	$1,373
AMR - U.S. (in actual U.S. dollars)	**US$1,409**	US$1,236
Summary of Financial Information		
Gross book value	**$3,033,427**	$3,011,469
Indebtedness	**$1,337,229**	$1,442,607
Indebtedness to gross book value ratio	**44.1%**	47.9%
Weighted average mortgage interest rate[1]	**3.48%**	3.49%
Weighted average term to maturity on mortgages payable (years)	**5.6**	5.8
Exchange rates - United States dollar to Canadian dollar	**$1.30**	$1.36
Exchange rates - Canadian dollar to United States dollar	**$0.77**	$0.73

(1) 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)	2019	2018
Summary of Financial Information		
Interest coverage ratio	**2.29**	2.20
Indebtedness coverage ratio	**1.60**	1.58
Revenue from real estate properties	**$245,596**	$241,368
NOI	**$132,862**	$131,693
Proportionate NOI	**$128,338**	$125,789
Same Property Proportionate NOI	**$126,577**	$121,244
NOI margin - IFRS	**54.1%**	54.6%
NOI margin - Proportionate	**53.9%**	54.1%
Net income	**$80,128**	$174,710
FFO - basic	**$64,218**	$61,161
FFO - diluted	**$68,066**	$64,983
FFO per Unit - basic	**$1.22**	$1.20
FFO per Unit - diluted	**$1.19**	$1.18
Distributions per Unit	**$0.6826**	$0.6632
FFO payout ratio	**56.1%**	55.2%
Weighted average number of Units outstanding (in thousands):		
Basic[1]	**52,766**	50,930
Diluted[1] [2]	**56,999**	55,247
Average exchange rates - United States dollar to Canadian dollar	**$1.33**	$1.30
Average exchange rates - Canadian dollar to United States dollar	**$0.75**	$0.77

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

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

REAL ESTATE PROPERTIES

As at December 31, 2019, the REIT's multi-suite residential property portfolio consists of 16 Canadian properties and 27 U.S. properties (including one property under development), having a total of 13,277 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.

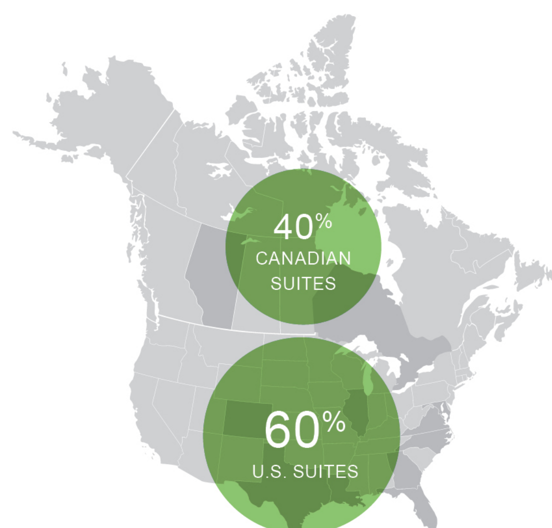
The following table details the regional distribution of the REIT's portfolio as at December 31, 2019:

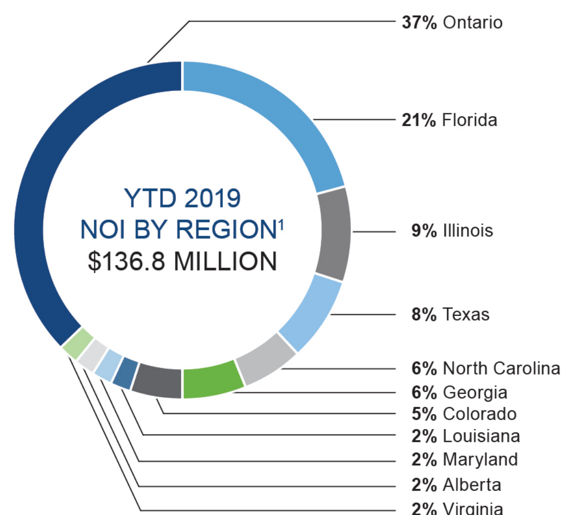
Region (In thousands of dollars, except as otherwise noted)	Number of Properties	Total Suites(1)	% of the Portfolio (based on suites)	Fair Value of Real Estate Properties(1)
Canadian Properties				
Alberta	1	277	2.1%	$59,700
Ontario				
Mississauga	7	2,219	16.7%	645,800
Toronto	6	1,997	15.0%	374,220
Other(2)	2	842	6.4%	196,900
	16	**5,335**	**40.2%**	**$1,276,620**
U.S. Properties				
Colorado	2	454	3.4%	$122,477
Texas	3	1,021	7.7%	206,120
Louisiana	2	279	2.1%	41,562
Illinois	2	1,205	9.1%	640,438
Georgia	3	814	6.1%	161,493
Florida	10	2,593	19.5%	514,909
North Carolina	2	864	6.5%	167,857
Virginia	1	104	0.8%	62,602
Maryland	1	492	3.7%	171,052
	26	**7,826**	**58.9%**	**$2,088,510**
Total before property under development	**42**	**13,161**	**99.1%**	**$3,365,130**
Property under development(3)	1	116	0.9%	22,763
Total	**43**	**13,277**	**100.0%**	**$3,387,893**

(1) Total suites and fair value of real estate properties include non-controlling interest; the REIT, on a proportionate basis, has ownership of 12,257 suites. Fair value of real estate properties represents the sum of income producing properties ($2,872,658) and the REIT's equity-accounted investment properties ($515,235) inclusive of non-controlling interest share.

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

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





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

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

AVERAGE MONTHLY RENT AND OCCUPANCY BY REGION

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

Region	AMR/Suite at December 31, 2019	AMR/Suite at December 31, 2018	% Change	Occupancy at December 31, 2019	Occupancy at December 31, 2018
Canadian Properties (in Canadian dollars)					
Alberta	**$1,408**	$1,380	**2.0%**	**95.7%**	98.9%
Ontario					
Mississauga	**1,586**	1,516	**4.6%**	**99.2%**	99.0%
Toronto	**1,287**	1,244	**3.5%**	**98.9%**	99.2%
Other[1]	**1,378**	1,310	**5.2%**	**98.7%**	99.5%
Total Ontario	**1,434**	1,373	**4.4%**	**99.0%**	99.1%
Total Canada (in Canadian dollars)	**$1,432**	$1,373	**4.3%**	**98.8%**	99.1%
U.S. Properties (in US dollars)					
Colorado	**$1,403**	$1,353	**3.7%**	**94.9%**	96.5%
Texas	**1,308**	1,268	**3.2%**	**93.3%**	95.9%
Louisiana	**1,212**	1,170	**3.6%**	**94.1%**	92.1%
Illinois	**2,441**	2,361	**3.4%**	**95.3%**	93.6%
Georgia	**1,265**	1,212	**4.4%**	**94.9%**	95.5%
Florida	**1,279**	1,226	**4.3%**	**95.1%**	95.4%
North Carolina	**1,085**	1,044	**3.9%**	**95.3%**	95.8%
Virginia	**2,155**	2,109	**2.2%**	**88.3%**	90.4%
Maryland	**1,882**	1,860	**1.2%**	**94.1%**	88.0%
U.S. Same Property	**1,345**	1,297	**3.7%**	**94.6%**	95.0%
Acquisition / dispositions[2]	**2,624**	769	**241.2%**	**92.4%**	91.6%
Total U.S. (in US dollars)	**$1,409**	$1,236	**14.0%**	**94.5%**	94.7%
Total (in local currencies)	**$1,419**	$1,293	**9.7%**	**96.4%**	96.5%

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

(2) U.S. acquisition includes the Marquee at Block 37 acquired on December 9, 2019. U.S. dispositions include the five properties located in Louisiana that were sold during the six months ended June 30, 2019.

As at December 31, 2019, AMR per suite in Canada increased by 4.3% compared to December 31, 2018, mainly due to rental rate increases in line with the Ontario guideline rate in 2019 of 1.8%, above guideline increases at several properties upon the completion of capital projects and rental rate increases on suite turnover.

Strong demand, particularly in Ontario, has allowed the REIT to increase rents as suites turn over. During the year ended December 31, 2019, the REIT's Canadian portfolio turned over 798 suites, or 15.0% of total suites located in Canada and achieved AMR growth of 17.7% on suite turnover.

As at December 31, 2019, occupancy in Canada is 98.8%, compared to 99.1% at December 31, 2018, reflecting strong and stable demand predominantly in Ontario. The decrease in occupancy at the REIT's single property located in Edmonton, Alberta, from 98.9% at December 31, 2018, to 95.7% at December 31, 2019, is the result of increased move outs during the second half of 2019 due to seasonality as well as fewer rental incentives provided.

As at December 31, 2019, Same Property AMR per suite in the U.S. increased by 3.7% compared to December 31, 2018. The REIT had AMR growth in all U.S. regions mainly attributable to improved occupancy achieved at the end of 2018, creating less availability during 2019 compared with the previous year, which enabled leasing at higher rental rates.

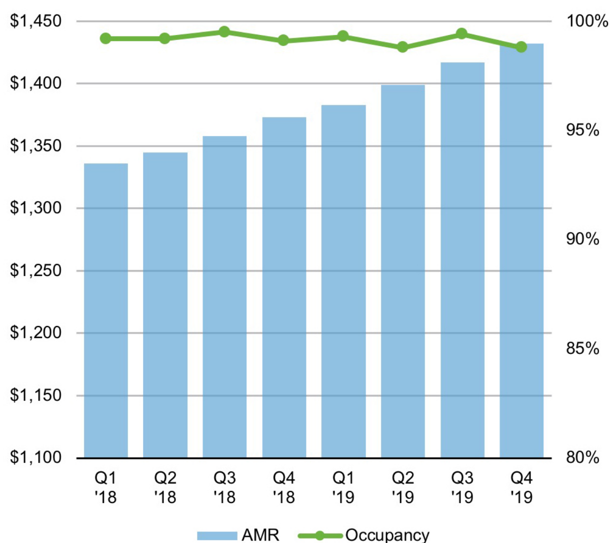
As at December 31, 2019, Same Property occupancy in the U.S. was stable decreasing by 0.4% to 94.6% compared to 95.0% at December 31, 2018. The stable occupancy was mainly due to a focus on tenant retention during the first half of 2019 in order to reduce inventory of vacant suites going into the summer months. During the third and fourth quarter of 2019, the REIT's U.S. properties performed well through the most active leasing season; this was achieved through the efficient use of revenue management tools aimed at balancing rent growth, traffic and renewal exposure. As at December 31, 2019 and throughout the year, the REIT's overall U.S. occupancy reached near optimum levels maintaining between 94% and 96%, resulting from improved marketing efforts and a continued focus on the overall resident experience. The REIT also maintained AMR growth within each respective sub-market as it enjoyed the same target occupancies. The REIT's single asset located in Falls Church, Virginia, continues to face supply challenges resulting in the need to provide rental incentives as the occupancies in the immediate sub-market remain soft.

Sequentially, Same Property occupancy in the U.S. modestly increased to 94.6% compared to 94.4% as at September 30, 2019, supported by higher resident retention as well as management's continued strategy to stagger lease maturities in order to reduce the number of expiring leases during the winter months. In addition, the REIT intends to commence lease-up of its newly redeveloped mid-rise property, 1643 Josephine Street, during the first half of 2020, which will further improve the overall quality of the portfolio.

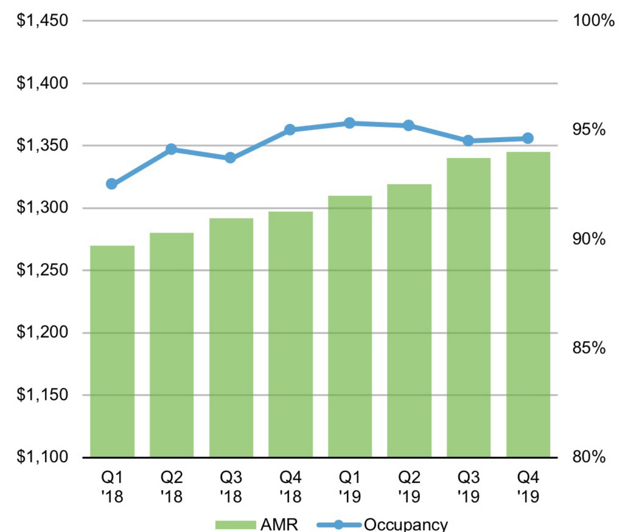
For the year ended December 31, 2019, the REIT's rental incentives amounted to $608 (2018 - $2,120), mainly at properties that were impacted by new supply. During 2018, the REIT faced new supply challenges impacting three properties located in Virginia, Maryland and Illinois, as competitors used rental incentives aggressively to complete their initial lease up. This resulted in a temporary use of higher rental incentives in order to stabilize occupancy. During 2019, the use of rental incentives decreased to reflect the portfolio's stable occupancy. Market rents are constantly monitored and increased where appropriate, with the objective of maximizing revenue growth while maintaining stable occupancy.

The following table details AMR (in actual dollars), stated in local currency, and occupancy of the REIT's Same Property portfolio at each quarter end since March 31, 2018:

CANADA



U.S.



PART III

REVIEW OF OPERATIONAL RESULTS

The REIT's operational results are summarized below:

For the years ended December 31 (In thousands of dollars)	2019	2018
Revenue from real estate properties	**$245,596**	$241,368
Property operating expenses		
Property operating costs	**(62,898)**	(61,099)
Realty taxes	**(31,860)**	(30,199)
Utilities	**(17,976)**	(18,377)
Net operating income	**132,862**	131,693
Other expenses (income)		
Interest expense	**65,812**	66,083
Trust expenses	**14,343**	13,765
Equity income from investments	**(97)**	(271)
Foreign exchange loss (gain)	**854**	(2,280)
Other income	**(1,505)**	(65)
Income before fair value changes and income taxes	**53,455**	54,461
Fair value gain on real estate properties, net	**55,977**	180,283
Fair value loss on Class B LP Units	**(23,079)**	(36,513)
Income before income taxes	**86,353**	198,231
Provision for income taxes		
Current	**132**	233
Deferred	**6,093**	23,288
	6,225	23,521
Net income for the year	**$80,128**	$174,710
Net income attributable to:		
Unitholders	**$76,815**	$172,225
Non-controlling interest	**3,313**	2,485
	$80,128	$174,710

REVENUE FROM REAL ESTATE PROPERTIES

Higher rental revenue for the year ended December 31, 2019, is mainly due to rental rate increases and foreign exchange fluctuations, partly offset by dispositions during the first half of 2019.

NET OPERATING INCOME

The following tables provide the NOI and Proportionate NOI for the REIT's consolidated Canadian and U.S. operations. Same Property NOI for the year ended December 31, 2019, measures the operating performance for properties owned by the REIT continuously for the current and comparable reporting period and does not take into account the impact of the operating performance of property acquisitions and dispositions as well as development properties until reaching stabilized occupancy.

Same Property results for the year ended December 31, 2019, measures the operating performance for properties owned and have reached stabilization by the REIT continuously since January 1, 2018, and excludes the following properties: i) five properties in Louisiana sold during the first half of 2019; ii) 1643 Josephine Street, New Orleans, Louisiana, acquired April 5, 2018, classified as property under development; iii) the acquisition of partial interests in three properties controlled by the REIT located in Mississauga, Ontario, on May 22, 2019; and iv) the acquisition of a 50% interest in the Marquee at Block 37, located in Chicago, Illinois, on December 9, 2019.

Same Property and Same Property Proportionate results for the year ended December 31, 2019, represents 11,979 and 11,715 residential suites, respectively.

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)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Revenue from properties				
Same Property	**$242,544**	**$234,215**	$230,525	$222,526
Acquisitions / Dispositions	**3,052**	**3,821**	10,843	9,955
Total revenue from properties	**245,596**	**238,036**	241,368	232,481
Property operating expenses				
Same Property				
Operating costs	**61,676**	**60,135**	56,835	55,396
Realty taxes	**31,241**	**29,840**	29,610	28,496
Utilities	**17,717**	**17,663**	17,493	17,390
Same Property	**110,634**	**107,638**	103,938	101,282
Acquisitions / Dispositions	**2,100**	**2,060**	5,737	5,410
Total property operating expenses	**112,734**	**109,698**	109,675	106,692
NOI				
Total Same Property	**131,910**	**126,577**	126,587	121,244
Acquisitions / Dispositions	**952**	**1,761**	5,106	4,545
Total NOI	**$132,862**	**$128,338**	$131,693	$125,789
NOI margin	**54.1%**	**53.9%**	54.6%	54.1%

For the year ended December 31, 2019, NOI from the REIT's properties increased by $1,169 (or 0.9%) to $132,862, compared to $131,693 in 2018. The increase in NOI is due to an increase in Same Property NOI of $5,323 (or 4.2%) and a net decrease from acquisition and disposition of properties of $4,154. The Same Property increase of $5,323 is due to an increase in Canada of $1,420 (or 2.8%), an increase in the U.S. of US$1,577 (or 2.7%) and the change in foreign exchange rate which increased NOI by $2,326.

For the year ended December 31, 2019, Proportionate NOI from the REIT's properties increased by $2,549 (or 2.0%) to $128,338, compared to $125,789 in 2018. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $5,333 (or 4.4%) and a net decrease from acquisition and disposition of properties of $2,784. The Same Property increase of $5,333 is due to an increase in Canada of $1,390 (or 2.8%), an increase in the U.S. of US$1,693 (or 3.1%) and the change in foreign exchange rate which increased Proportionate NOI by $2,250.

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)	2019 NOI	2019 Proportionate NOI	2018 NOI	2018 Proportionate NOI
Same Property NOI - Canada (local currency)	**$52,352**	**$51,642**	$50,932	$50,252
Same Property NOI - U.S. (local currency)	**59,957**	**56,475**	58,380	54,782
Acquisitions / Dispositions (local currency)	**856**	**1,468**	4,065	3,504
Exchange amount to Canadian dollars	**19,697**	**18,753**	18,316	17,251
Total NOI	**$132,862**	**$128,338**	$131,693	$125,789

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)	2019 NOI	 Proportionate NOI	2018 NOI	 Proportionate NOI
Revenue from properties				
Same Property	**$92,396**	**$91,247**	$88,923	$87,818
Acquisitions	**936**	**936**	888	—
Revenue from properties	**93,332**	**92,183**	89,811	87,818
Property operating expenses				
Same Property				
Operating costs	**19,117**	**18,918**	17,636	17,459
Realty taxes	**9,899**	**9,767**	9,520	9,389
Utilities	**11,028**	**10,920**	10,835	10,718
Same Property	**40,044**	**39,605**	37,991	37,566
Acquisitions	**365**	**365**	327	—
Total property operating expenses	**40,409**	**39,970**	38,318	37,566
NOI				
Same Property	**52,352**	**51,642**	50,932	50,252
Acquisitions	**571**	**571**	561	—
NOI	**$52,923**	**$52,213**	$51,493	$50,252
NOI margin	**56.7%**	**56.6%**	57.3%	57.2%

For the year ended December 31, 2019, NOI from the Canadian properties increased by $1,430 (or 2.8%) to $52,923, compared to $51,493 in 2018. The increase in NOI is due to an increase in Same Property NOI of $1,420 (or 2.8%) and an increase of $10 from the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase was due to an increase in rental revenue of $3,473 (or 3.9%), from higher AMR (4.3%), partially offset by an increase in operating expenses of $2,053 (or 5.4%). The increase in operating expenses of $2,053 was due to an increase in operating costs of $1,481 mainly from an increase in insurance expense from higher premiums and repairs and maintenance due to higher cleaning costs. In addition, higher realty taxes of $379 resulting from an increase in the assessed market value at certain properties, and an increase in utilities of $193 mainly due to an increase in electricity and water rates, which was partly offset by the positive impact of the REIT's energy initiatives and sub-metering program contributed to the increase in operating expenses.

For the year ended December 31, 2019, Proportionate NOI from the Canadian properties increased by $1,961 (or 3.9%) to $52,213, compared to $50,252 in 2018. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $1,390 (or 2.8%) and an increase of $571 from the acquisition of partial interests in three properties controlled by the REIT. The Same Property increase was due to an increase in rental revenue of $3,429 (or 3.9%), from higher AMR (4.3%), partially offset by an increase in operating expenses of $2,039 (or 5.4%). The increase in operating expenses of $2,039 was due to an increase in operating costs of $1,459 mainly from an increase in insurance expense from higher premiums and repairs and maintenance due to higher cleaning costs. In addition, higher realty taxes of $378 resulting from an increase in the assessed market value at certain properties, and an increase in utilities of $202 mainly due to an increase in electricity and water rates, which was partly offset by the positive impact of the REIT's energy initiatives and sub-metering program contributed to the increase in operating expenses.

The REIT's Canadian NOI margin and Proportionate NOI margin were 56.7% and 56.6%, respectively, for the year ended December 31, 2019, compared to 57.3% and 57.2%, respectively, for the year ended December 31, 2018. Overall, as noted above, the 5.4% increase in operating expenses due to higher insurance and realty taxes, partially offset by the 3.9% increase in revenue due to higher AMR, contributed to the decrease in NOI margin.

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

For the years ended December 31 (In thousands of US dollars, unless otherwise stated)	2019		2018	
	NOI	**Proportionate NOI**	NOI	Proportionate NOI
Revenue from properties				
Same Property	**$113,165**	**$107,755**	$109,215	$103,900
Acquisitions / Dispositions	**1,592**	**2,176**	7,678	7,678
Total revenue from properties	**114,757**	**109,931**	116,893	111,578
Property operating expenses				
Same Property				
Operating costs	**32,081**	**31,069**	30,213	29,244
Realty taxes	**16,084**	**15,127**	15,484	14,724
Utilities	**5,043**	**5,084**	5,138	5,150
Same Property	**53,208**	**51,280**	50,835	49,118
Acquisitions / Dispositions	**1,307**	**1,279**	4,174	4,174
Total property operating expenses	**54,515**	**52,559**	55,009	53,292
NOI (in US dollars)				
Same Property	**59,957**	**56,475**	58,380	54,782
Acquisitions / Dispositions	**285**	**897**	3,504	3,504
Total NOI (in US dollars)	**60,242**	**57,372**	61,884	58,286
Exchange amount to Canadian dollars	**19,697**	**18,753**	18,316	17,251
NOI (in Canadian dollars)	**$79,939**	**$76,125**	$80,200	$75,537
NOI margin (in US dollars)	**52.5%**	**52.2%**	52.9%	52.2%

For the year ended December 31, 2019, NOI from the U.S. properties decreased by $261 (or 0.3%) to $79,939, compared to $80,200 in 2018. The decrease in NOI is due to a decrease in NOI from the disposition of five Louisiana properties of US$3,219, an increase in Same Property NOI of US$1,577 (or 2.7%), and the change in foreign exchange rate which increased NOI by $1,381. The Same Property increase was due to an increase in rental revenue of US$3,950 (or 3.6%), from higher AMR (3.7%), partially offset by an increase in operating expenses of US$2,373 (or 4.7%) mainly from an increase in property operating costs and realty taxes. The increase in property operating costs of US$1,868 is mainly due to an increase in insurance expense from higher premiums, as well as payroll and repairs and maintenance expenses. The increase in realty taxes of US$600 is due to an IFRIC 21 adjustment on the five properties disposed of during the year, as well as an increase in the assessed market value at certain properties.

For the year ended December 31, 2019, Proportionate NOI from the U.S. properties increased by $588 (or 0.8%) to $76,125, compared to $75,537 in 2018. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of US$1,693 (or 3.1%), a decrease in NOI of US$2,607 from the disposition of five Louisiana properties, net of an increase from the acquisition completed during December 2019, and the change in foreign exchange rate which increased NOI by $1,502. The Same Property increase was mainly due to an increase in rental revenue of US$3,855 (or 3.7%), from higher AMR (3.7%), partially offset by an increase in operating expenses of US$2,162 (or 4.4%) mainly from an increase in property operating costs and realty taxes. The increase in property operating costs of US$1,825 is mainly due to an increase in insurance expense from higher premiums, as well as payroll and repairs and maintenance expenses. The increase in realty taxes of US$403 is due to an increase in the assessed market value at certain properties.

The REIT's U.S. NOI margin and Proportionate NOI margin were 52.5% and 52.2%, respectively, for the year ended December 31, 2019, compared to 52.9% and 52.2%, respectively, for the year ended December 31, 2018. The NOI margin and Proportionate NOI margin were both impacted by higher property operating costs and realty taxes (as noted above), as well as from property dispositions during the year.

INTEREST EXPENSE

Interest expense consists of the following:

For the years ended December 31 (In thousands of dollars)	2019	2018
Interest on mortgages	**$41,009**	$41,903
Distributions on Class C LP Units - interest	**3,211**	3,293
Interest on mortgages and Retained Debt	**44,220**	45,196
Distributions on Class C LP Units - tax payment	**566**	555
Interest on the convertible debentures	**3,848**	3,822
Interest on lease liability	**413**	389
Amortization of mark-to-market adjustment on mortgages	**—**	(443)
Amortization of deferred financing costs	**2,819**	2,964
Amortization of deferred financing costs on the convertible debentures	**626**	591
Fair value loss on conversion option on the convertible debentures	**1,003**	1,587
Loss on extinguishment of mortgages payable	**561**	—
Interest expense before distributions on Class B LP Units	**54,056**	54,661
Distributions on Class B LP Units	**11,756**	11,422
	$65,812	$66,083

Total interest expense decreased by $271 during the year ended December 31, 2019, to $65,812, compared to $66,083 in 2018. The decrease is predominantly due to a decrease in interest on mortgages of $894 resulting from the disposal of five Louisiana properties during the first half of 2019, lower amortization of mark-to-market adjustments of $443, and a non-cash decrease in fair value on the convertible debentures' conversion option of $584, partially offset by a loss on extinguishment of mortgages payable of $561 and an increase of $334 in distributions on Class B LP Units resulting from an increase to monthly distributions during the fourth quarters of 2019 and 2018. The strengthening of the Canadian dollar decreased interest expense on U.S. mortgages by $753 excluding the impact of dispositions.

Morguard retained the mortgages and deferred financing costs (the “Retained Debt”), on four Canadian properties that were sold to the REIT. Morguard remains responsible for the interest and principal payments on the Retained Debt, and the Retained Debt is secured by charges on the four properties. In consideration of the Retained Debt, Morguard received Class C LP Units on which distribution payments are made in an amount sufficient to permit Morguard to satisfy amounts payable with respect to principal and interest of the Retained Debt and the tax payment that is attributable to any distributions on the Class C LP Units. The portion of the distributions that represents the interest and tax components associated with the Retained Debt that had been classified as interest expense for the year ended December 31, 2019, amounted to $3,777 (2018 - $3,848).

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, 2019 amounted to $11,756 (2018 - $11,422).

TRUST EXPENSES

Trust expenses consist of the following:

For the years ended December 31 (In thousands of dollars)	2019	2018
Asset management fees and distributions	**$11,908**	$11,138
Professional fees	**1,093**	1,152
Public company expenses	**796**	641
Other	**546**	834
	$14,343	$13,765

Trust expenses increased by $578 during the year ended December 31, 2019, to $14,343, compared to $13,765 in 2018. 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 FROM INVESTMENTS

The REIT has a 50% interest in two properties comprising 1,182 suites located in Rockville, Maryland, and in Chicago, Illinois, in which the REIT has joint control of the investment.

Equity income from investments for the year ended December 31, 2019, was $97, including a non-cash fair value loss on real estate properties of $1,385, which was mainly due to acquisition costs in connection with the Marquee at Block 37 that were initially capitalized. Equity income from investment for the year ended December 31, 2018, was $271, net of a non-cash fair value loss of $783.

FOREIGN EXCHANGE LOSS (GAIN)

IFRS requires monetary assets and liabilities denominated in foreign currencies to be translated into Canadian dollars at the exchange rate in effect at the reporting date, and any gain or loss is recognized in the consolidated statements of income. The REIT’s foreign exchange loss for the year ended December 31, 2019, amounted to $854 (2018 - gain of $2,280), and is mainly the result of the fluctuation of the Canadian dollar against the United States dollar as at December 31, 2019, when compared to December 31, 2018.

OTHER INCOME

Other income mainly represents interest income earned from the Morguard Facility on advances made to Morguard and other expenses. Other income during the year ended December 31, 2019, amounted to $1,505 (2018 - $65). The increase in other income was due to higher interest income earned on the Morguard Facility, as proceeds from the Offering were advanced to Morguard during the third quarter and partially advanced back to the REIT to complete the acquisition of the Marquee at Block 37, on December 9, 2019.

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, 2019, the REIT recognized a net fair value gain of $55,977 (2018 - $180,283). The fair value gain comprises of a $60,307 fair value gain at the REIT’s Canadian properties primarily as a result of an increase in stabilized NOI and a $4,330 fair value loss at the U.S. properties, attributable to capital additions during the year being greater than the fair value adjustment resulting from an increase in stabilized NOI.

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, 2019, the REIT valued the Class B LP Units based on the closing price of the TSX-listed Units, which resulted in a fair value liability of $318,455 (2018 - $295,376). The REIT incurred a fair value loss for the year ended December 31, 2019 of $23,079 (2018 - $36,513) (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.

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

For the year ended December 31, 2019, the REIT recorded current tax expense of $132 (2018 - $233). For the year ended December 31, 2019, the REIT has recorded a deferred tax expense for U.S. federal and state taxes associated with the U.S. subsidiaries of $6,093 (2018 - $23,288). The deferred tax expense recognized during 2019 is mainly due to the tax depreciation related to U.S. properties, partially offset by the recognition of the benefit of tax losses.

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

For the years ended December 31 (In thousands of dollars)	2019	2018
Current	**$132**	$233
Deferred	**6,093**	23,288
Provision for income taxes	**$6,225**	$23,521

As at December 31, 2019, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$29,234 (2018 - US$30,075) of which no deferred tax assets were recognized as it is not probable that taxable profit will be available against such losses of which the deductible temporary difference can be utilized. The net operating losses expire in various years commencing in 2032.

As at December 31, 2019, the REIT’s U.S. subsidiaries have a total of US$9,206 (2018 - US$8,172) of unutilized interest expense deductions of which deferred tax assets were recognized.

FUNDS FROM OPERATIONS

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

	Three months ended December 31		Year ended December 31	
(In thousands of dollars, except per Unit amounts)	2019	2018	2019	2018
Net income attributable to Unitholders	**$34,576**	$54,380	**$76,815**	$172,225
Add (deduct):				
Realty taxes accounted for under IFRIC 21[1]	**(5,257)**	(4,530)	**265**	—
Fair value loss (gain) on conversion option on the convertible debentures	**(2,380)**	1,117	**1,003**	1,587
Distributions on Class B LP Units recorded as interest expense[2]	**2,983**	2,896	**11,756**	11,422
Foreign exchange loss (gain)	**368**	(1,503)	**854**	(2,280)
Fair value loss (gain) on real estate properties, net[3]	**15,484**	(45,284)	**(54,592)**	(179,500)
Non-controlling interests' share of fair value loss on real estate properties	**(306)**	(6,492)	**(1,055)**	(2,201)
Fair value loss (gain) on Class B LP Units	**(23,423)**	19,634	**23,079**	36,513
Deferred income tax provision (recovery)	**(4,918)**	(5,110)	**6,093**	23,288
Current tax on disposition of properties	**—**	107	**—**	107
FFO - basic	**$17,127**	$15,215	**$64,218**	$61,161
Interest expense on the convertible debentures	**970**	970	**3,848**	3,822
FFO - diluted	**$18,097**	$16,185	**$68,066**	$64,983
FFO per Unit - basic	**$0.30**	$0.30	**$1.22**	$1.20
FFO per Unit - diluted	**$0.30**	$0.29	**$1.19**	$1.18
Weighted average number of Units outstanding (in thousands):				
Basic[4]	**56,199**	50,942	**52,766**	50,930
Diluted[4] [5]	**60,432**	55,175	**56,999**	55,247

(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 investments.

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

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

Basic FFO for the three months ended December 31, 2019, increased by $1,912, or 12.6%, to $17,127 ($0.30 per Unit), compared to $15,215 ($0.30 per Unit) in 2018. The increase is mainly due to higher Proportionate NOI of $1,058, an increase in other income of $888 and a decrease in interest expense of $168 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures), partially offset by an increase in trust expenses of $184.

Basic FFO per Unit for the three months ended December 31, 2019, was $0.30 per Unit, compared to $0.30 per Unit for the three months ended December 31, 2018. The disposal of the five Louisiana properties had a $0.005 per Unit negative impact. The issuance of Units on August 28, 2019, which includes the dilution from additional Units of the Offering offset by three months of interest income earned on proceeds advanced on the Morguard Facility, including the partial use of proceeds on December 9, 2019, to acquire the Marquee at Block 37, had a $0.015 per Unit negative impact.

Basic FFO for the year ended December 31, 2019, increased by $3,057, or 5.0%, to $64,218 ($1.22 per Unit), compared to $61,161 ($1.20 per Unit) in 2018. The increase is mainly due to higher Proportionate NOI of $2,549, an increase in other income of $1,440, partially offset by an increase in interest expense of $342 (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 $578. The increase in interest expense of $342 includes lower amortization of mark-to-market adjustments of $443 and a $561 loss on extinguishment of mortgages payable in connection with the disposal of five Louisiana properties.

Basic FFO per Unit for the year ended December 31, 2019, increased by $0.02 to $1.22 per Unit, compared to $1.20 per Unit in 2018 due to the following factors:

i) the change in foreign exchange rate had a $0.02 per Unit positive impact;
ii) the disposal of the five Louisiana properties had a $0.035 per Unit negative impact;
iii) the acquisition on May 22, 2019, of partial interests in three properties controlled by the REIT located in Mississauga, Ontario, had a $0.005 per Unit positive impact; and
iv) the issuance of Units on August 28, 2019, which includes the dilution from additional Units of the Offering offset by approximately four months of interest income earned on proceeds advanced on the Morguard Facility, including the partial use of proceeds on December 9, 2019, to acquire the Marquee at Block 37, had a $0.02 per Unit negative impact.

DISTRIBUTIONS

The Trustees have discretion with respect to the timing and amounts of distributions. For the year ended December 31, 2019, total distributions amounted to $36,283 (2018 - $33,777).

On October 29, 2019, the REIT announced that its Board of Trustees has approved an increase to its annual cash distributions by $0.02 per Unit (2.94%) to $0.70 per Unit on an annualized basis from $0.68 per Unit. The increase was effective for the November 2019 distribution, paid on December 16, 2019.

For the years ended December 31 (In thousands of dollars)	**2019**			2018		
	Units	**Class B LP Units**	**Total**	Units	Class B LP Units	Total
Distributions paid and declared	**$23,964**	**$11,756**	**$35,720**	$21,875	$11,422	$33,297
Distributions – DRIP	**563**	**—**	**563**	480	—	480
Total	**$24,527**	**$11,756**	**$36,283**	$22,355	$11,422	$33,777

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)	**2019**	2018	2017
Net income	**$80,128**	$174,710	$173,131
Cash provided by operating activities	**62,483**	59,947	59,476
Distributions - Units[1]	**$24,527**	$22,355	$21,663
Excess (shortfall) of net income over distributions	**$55,601**	$152,355	$151,468
Excess of cash provided by operating activities over distributions	**$37,956**	$37,592	$37,813

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

Net income for the year ended December 31, 2019, includes a net income of $26,494 of non-cash components relating to a fair value gain on real estate properties, fair value loss on Class B LP Units, an IFRIC 21 adjustment to realty taxes, equity income from investments 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)	2019	2018
Canadian Properties		
Alberta	**$59,700**	$61,000
Ontario	**1,216,920**	1,148,490
Total Canadian Properties	**1,276,620**	1,209,490
U.S. Properties (in US dollars)		
Colorado	**94,300**	93,600
Texas	**158,700**	159,900
Louisiana	**32,000**	79,500
Illinois	**228,100**	227,400
Georgia	**124,340**	120,940
Florida	**396,450**	393,360
North Carolina	**129,240**	127,210
Virginia	**48,200**	49,100
	1,211,330	1,251,010
Property under development	**17,526**	12,254
Total U.S. Properties (in US dollars)	**1,228,856**	1,263,264
Exchange amount to Canadian dollars	**367,182**	460,081
Total U.S. Properties (in Canadian dollars)	**1,596,038**	1,723,345
Total real estate properties	**$2,872,658**	$2,932,835

The value of real estate properties decreased by $60,177 as at December 31, 2019, to $2,872,658, compared to $2,932,835 at December 31, 2018. The decrease is mainly the result of the following:

- The disposition of five U.S. properties located in Louisiana totalling $63,809 (see Part II, "Significant Events");
- A decrease of $81,608 due to the change in U.S. dollar foreign exchange rate;
- A net fair value gain on real estate properties of $55,569, which is mainly attributable to an increase in stabilized NOI at Canadian properties; and
- Capitalization of property enhancements and development expenditures of $37,623.

APPRAISAL CAPITALIZATION RATES

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

As at December 31, 2019, and 2018, the REIT had all its portfolio appraised by Morguard's appraisal division. In addition, the REIT's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

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

As at December 31, 2019, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 6.8% (2018 - 4.0% to 7.8%) applied to a stabilized net operating income of $133,706 (2018 - $138,449), resulting in an overall weighted average capitalization rate of 4.7% (2018 - 4.7%).

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

	December 31, 2019					December 31, 2018				
	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%	96.0%	4.5%	4.0%	4.2%
United States										
Colorado	**95.0%**	**95.0%**	**5.3%**	**5.3%**	**5.3%**	95.0%	95.0%	5.3%	5.3%	5.3%
Texas	**95.0%**	**95.0%**	**5.3%**	**5.0%**	**5.0%**	95.0%	94.0%	5.3%	5.0%	5.1%
Louisiana	**95.0%**	**95.0%**	**6.8%**	**5.5%**	**6.0%**	97.0%	90.0%	7.8%	5.5%	6.8%
Illinois[1]	**95.0%**	**95.0%**	**4.8%**	**4.5%**	**4.6%**	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%	5.5%	5.0%	5.4%
Florida	**96.0%**	**93.5%**	**6.5%**	**4.8%**	**5.5%**	95.0%	93.5%	6.5%	5.0%	5.5%
North Carolina	**94.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	94.0%	94.0%	5.3%	5.0%	5.1%
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%	4.5%	4.5%	4.5%

(1) Includes equity-accounted investments.

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, 2019, would decrease by $144,802 or increase by $161,374, respectively.

PROPERTY UNDER DEVELOPMENT

On April 5, 2018, the REIT acquired a property comprising 116 suites located in New Orleans, Louisiana, for a purchase price of $14,866 (US$11,636), including closing costs. The property is vacant and designated as a property under development. The REIT plans to complete capital upgrades during the first half of 2020, at which point initial lease-up will commence. During the year ended December 31, 2019, the REIT incurred $6,995 of development expenditures related to the development project.

PROPERTY CAPITAL INVESTMENTS

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

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

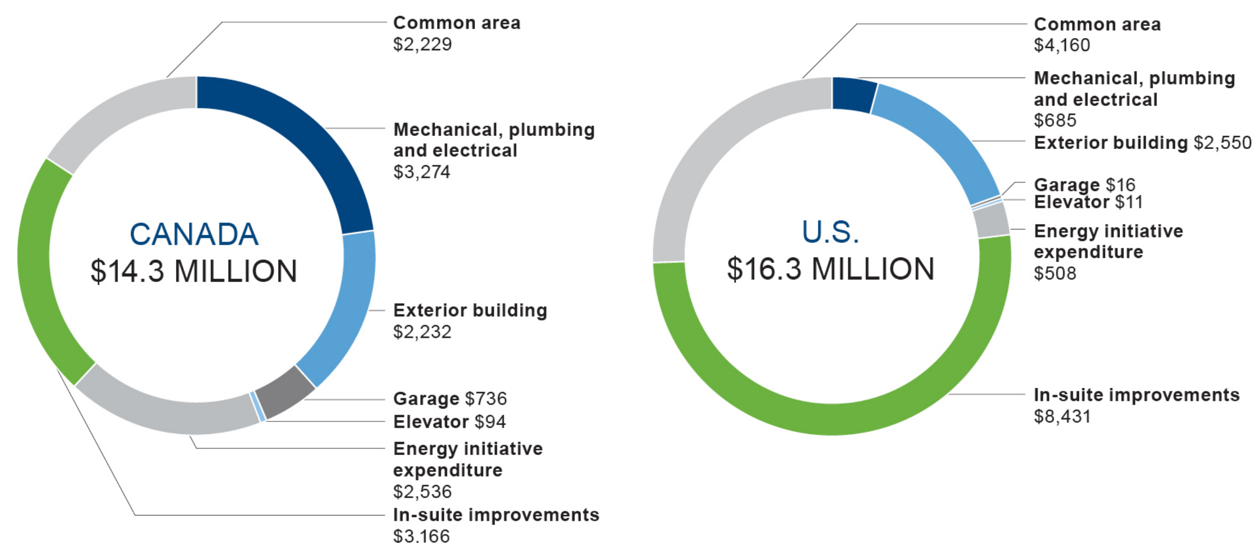
The following table provides additional details on total capital expenditures over the past three years:

For the years ended December 31 (In thousands of dollars)	2019	2018	2017
Common area	**$6,389**	$3,721	$3,097
Mechanical, plumbing and electrical	**3,959**	2,083	2,414
Exterior building	**4,782**	4,772	4,129
Garage	**752**	1,471	1,917
Elevator	**105**	42	18
Energy initiative expenditure	**3,044**	5,321	2,416
In-suite improvements	**11,597**	11,540	7,586
Total capital expenditures	**$30,628**	$28,950	$21,577

Capital Expenditures by Region

The following details total capital expenditures by region:

For the year ended December 31, 2019
(In thousands of dollars)



During the year ended December 31, 2019, the REIT's total capital expenditures amounted to $30,628 (or $2,528 per suite), compared to $28,950 (or $2,263 per suite) during 2018. 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 2019 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 courtyards and other outdoor/indoor amenity spaces as well as hallway and corridors completed at several properties. Additionally, several properties underwent exterior painting projects in 2019 that enhance the overall curb appeal. Sustaining capital included several projects such as balcony, garage, roof, fencing, sidewalk and driveways as well as landscaping upgrades which were completed across multiple properties.

EQUITY-ACCOUNTED INVESTMENTS

The following are the REIT's equity-accounted investments as at December 31, 2019, and 2018:

			Ownership		Carrying Value	
Property	**Place of Business**	**Investment Type**	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
The Fenestra	Rockville, MD	Joint Venture	**50%**	50%	**$41,147**	$40,859
Marquee at Block 37	Chicago, IL	Joint Venture	**50%**	—%	**65,374**	—
					$106,521	$40,859

The Fenestra at Rockville Town Square ("The Fenestra") was completed in 2008 and comprises 492 suites across three six-storey buildings, featuring condo-quality amenities located in an urban growth market within commuting distance of Washington, D.C.

The Marquee at Block 37, acquired on December 9, 2019, is a 38-storey apartment building located in the heart of downtown Chicago and features 690 suites and extensive best-in-class amenities. The purchase price of the property (on a 100% basis) was $355,465 (US$268,580), including closing costs and was partially funded by a mortgage in the amount of $218,378 (US$165,000) at an interest rate of 3.27% for a term of 10 years.

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

As at December 31 (In thousands of Canadian dollars)	2019	2018
Balance, beginning of year	**$40,859**	$37,295
Additions	**68,834**	—
Share of net income	**97**	271
Foreign exchange gain (loss)	**(3,269)**	3,293
Balance, end of year	**$106,521**	$40,859

PART V

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

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

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

CASH FLOWS

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

For the years ended December 31 (In thousands of dollars)	2019	2018
Cash provided by operating activities	**$62,483**	$59,947
Cash used in investing activities	**(67,831)**	(44,981)
Cash provided by (used in) financing activities	**6,072**	(23,422)
Net increase (decrease) in cash during the year	**724**	(8,456)
Net effect of foreign currency translation on cash balance	**238**	121
Cash, beginning of year	**16,786**	25,121
Cash, end of year	**$17,748**	$16,786

Cash Provided by Operating Activities

Cash provided by operating activities during the year ended December 31, 2019, was $62,483, compared to $59,947 in 2018. The change during the year mainly relates to an increase in NOI (excluding IFRIC 21 adjustment) of $1,577, a decrease in additions to tenant incentives of $1,512, an increase in other income of $1,440, a decrease in interest on mortgages of $894, and an increase in non-cash operating assets and liabilities of $841, partially offset by an increase in foreign exchange loss of $3,134 and an increase in trust expenses of $578.

Cash Used in Investing Activities

Cash used in investing activities during the year ended December 31, 2019, totalled $67,831, compared to $44,981 in 2018. The cash used in investing activities during the year consists of an investment in equity-accounted investments of $68,834 and the capitalization of property enhancements and development expenditures of $37,623, partially offset by the net proceeds from the sale of five Louisiana properties totalling $38,626.

Cash Provided by (Used in) Financing Activities

Cash provided by financing activities during the year ended December 31, 2019, totalled $6,072, compared to cash used in financing activities of $23,422 in 2018. The cash provided by financing activities during the year was largely due to the net proceeds from new mortgages of $107,868, net proceeds from the issuance of Units of $99,591, and a decrease in restricted cash of $3,460, partially offset by the repayment of mortgages on maturity of $101,555, the net repayment of the Morguard Facility of $34,179, distributions paid to Unitholders of $23,601, mortgage principal instalment repayments of $22,640, the repayment due to a mortgage extinguishment in connection with the disposal of a property of $11,331, an increase in subsidiary ownership interest of $8,014, and distributions to non-controlling interest of $3,527.

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)	2019	2018
Mortgages payable, principal balance	**$1,154,960**	$1,243,887
Class C LP Units and present value of tax payment, principal balance	**87,483**	90,663
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**—**	12,803
Lease liability	**9,286**	9,754
Class B LP Units	**318,455**	295,376
Unitholders' equity	**1,136,363**	1,018,423
Total capitalization	**$2,792,047**	$2,756,406

DEBT PROFILE

As at December 31, 2019, the overall leverage, as represented by the ratio of total indebtedness to gross book value was 44.1%. The requirements of the REIT's operating policies as outlined in the Declaration of Trust include the requirement that the REIT will not 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.

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

The following table summarizes the key liquidity metrics:

As at December 31	2019	2018
Total indebtedness to gross book value	**44.1%**	47.9%
Weighted average mortgage interest rate[1]	**3.48%**	3.49%
Weighted average term to maturity on mortgages payable (years)	**5.6**	5.8

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

For the years ended December 31	2019	2018
Interest coverage ratio [1] [2]	**2.29**	2.20
Indebtedness coverage ratio [1] [3]	**1.60**	1.58

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

MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at December 31			2019	2018
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,154,960**	**$78,588**	**$1,233,548**	$1,325,810
Deferred financing costs	**(11,653)**	**(485)**	**(12,138)**	(14,423)
Present value of tax payment on Class C LP Units	**—**	**8,895**	**8,895**	8,740
	$1,143,307	**$86,998**	**$1,230,305**	$1,320,127
Range of interest rates	**2.25−4.25%**	**3.97%**	**2.25−4.25%**	2.25−4.25%
Weighted average interest rate	**3.45%**	**3.97%**	**3.48%**	3.49%
Weighted average term to maturity (years)	**5.9**	**1.5**	**5.6**	5.8
Fair value of mortgages and Class C LP Units	**$1,181,206**	**$79,914**	**$1,261,120**	$1,323,506

As at December 31, 2019, the principal balance on the mortgages payable and Class C LP Units totalled $1,233,548 (2018 - $1,325,810) and the deferred financing costs associated with the mortgages and Class C LP Units amounted to $12,138 (2018 - $14,423).

The carrying value of the Class C LP Units that were issued to Morguard in consideration for the Retained Debt (see Part III, "Review of Operational Results") includes the present value of the tax payments, which have been estimated to amount to $8,895 as at December 31, 2019 (2018 - $8,740).

Mortgages payable and Class C LP Units decreased by $89,822 as at December 31, 2019, to $1,230,305, compared to $1,320,127 at December 31, 2018. The decrease is mainly due to the following:

- The assumption and repayment of mortgages on the disposition of five properties located in Louisiana totalling $36,514 (US$27,451) which had a weighted average interest rate of 3.50%;
- Scheduled principal repayments of $22,640;
- Financing cost of $1,434;
- A decrease of $40,927 due to the change in U.S. dollar foreign exchange rate; partly offset by
- The repayment of three mortgages totalling $101,555 (US$76,680) at three properties located in Texas, which were refinanced for a total of $109,302 (US$82,530); and
- Amortization of deferred financing cost, the loss on extinguishment of mortgage payable and the present value adjustment of tax liability on Class C LP Units, totalling $3,946.

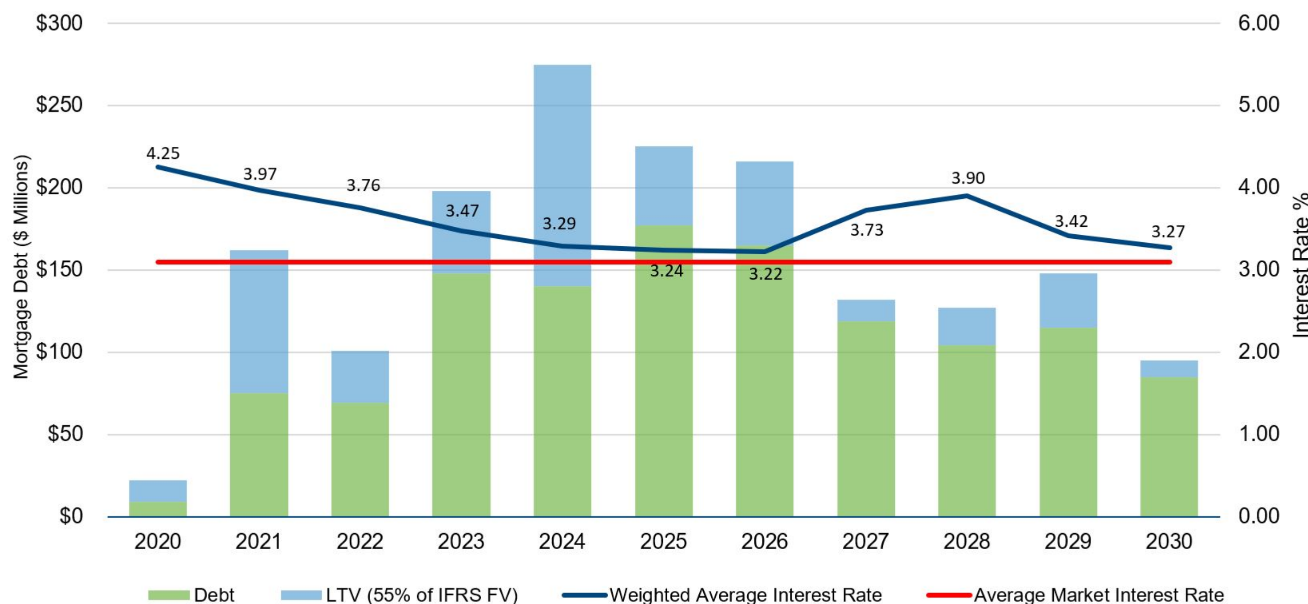
On October 1, 2019, the REIT completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,302 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.

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

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

As at December 31, 2019, the following table illustrates the REIT's mortgages and Class C LP Units (including equity-accounted investments at the REIT's interest), along with the IFRS fair value (at a loan-to-value of 55%) secured against the mortgages by year of maturity:

As at December 31, 2019



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

	2020			2021		
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Canada	1	$8,825	4.25%	4	$75,280	3.97%
U.S.	—	—	—%	—	—	—%
	1	**$8,825**	**4.25%**	**4**	**$75,280**	**3.97%**

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31 (In thousands of dollars)	2019	2018
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**3,472**	2,469
Unamortized financing costs	**(2,297)**	(2,923)
	$86,398	$84,769

For the year ended December 31, 2019, interest on the convertible debentures amounting to $3,848 (2018 - $3,822), 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 (the "2013 Debentures") maturing on March 30, 2018. On February 23, 2018, $23 of the 2013 Debentures were converted into 1,483 Units, and on February 26, 2018, the REIT redeemed the remaining $59,977 of its outstanding 2013 Debentures in advance of their March 30, 2018 maturity date.

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. 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, 2019, and 2018, $85,500 of the face value of the 2018 Debentures were outstanding.

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

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

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, 2019, the net amount payable under the Morguard Facility was $19,972, comprising amount receivable of US$10,681 and $6,100. As at December 31, 2018, the net amount payable under the Morguard Facility was $12,803, comprising an amount receivable of US$22,858 and a payable of $43,986.

During the year ended December 31, 2019, the REIT incurred on the Morguard Facility net interest income of $1,404 (2018 - net interest expense of $19).

LEASE LIABILITY

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 lease liability under the assumption that substantially all the risks and rewards incidental to ownership have been transferred.

The future minimum lease payments under the lease liability are as follows:

As at December 31 (In thousands of Canadian dollars)	2019	2018
Within 12 months	**$444**	$425
2 to 5 years	**1,793**	1,868
Over 5 years	**11,729**	12,806
Total minimum lease payments	**13,966**	15,099
Less: Future interest costs	**(4,680)**	(5,345)
Present value of minimum lease payments	**$9,286**	$9,754

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities for upcoming periods as at December 31, 2019, are as follows:

As at December 31, 2019	2020	2021	2022	2023	2024	Thereafter	Total
Mortgages payable and Class C LP Units	**$32,250**	**$99,923**	**$95,184**	**$171,770**	**$161,313**	**$673,108**	**$1,233,548**
Mortgage interest	**42,586**	**40,476**	**37,359**	**31,269**	**27,155**	**54,138**	**232,983**
Convertible debentures	**—**	**—**	**—**	**85,500**	**—**	**—**	**85,500**
Convertible debentures' interest	**3,858**	**3,848**	**3,848**	**949**	**—**	**—**	**12,503**
Lease liability	**444**	**444**	**444**	**444**	**461**	**11,729**	**13,966**
Accounts payable and accrued liabilities	**48,427**	**—**	**—**	**—**	**—**	**—**	**48,427**
	$127,565	**$144,691**	**$136,835**	**$289,932**	**$188,929**	**$738,975**	**$1,626,927**

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

UNITS

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

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

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

Issued and Fully Paid Units (In thousands, except Unit amounts)	Units	Amount
Balance, December 31, 2017	33,690,613	$367,928
Units issued under DRIP	30,784	480
2013 Debentures converted	1,483	23
Balance, December 31, 2018	33,722,880	368,431
Issuance of Units for cash, net of costs	**5,226,200**	**99,591**
Units issued under DRIP	**30,622**	**563**
Balance, December 31, 2019	**38,979,702**	**$468,585**

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

NORMAL COURSE ISSUER BIDS

The REIT had the approval of the TSX under its normal course issuer bid (“NCIB”) to purchase up to 2,556,288 Units and $8,050 principal amount of the Debentures. The program expired on December 20, 2019. On December 18, 2019, the REIT obtained the approval of the TSX under its normal course issuer bid to purchase up to 2,953,852 Units, being approximately 10% of the public float of outstanding Units; the program expires on December 20, 2020. The daily repurchase restriction for the Units is 17,964. 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 $11. 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 year ended December 31, 2019, and 2018.

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, 2019, the REIT issued 30,622 Units under the DRIP (2018 - 30,784 Units).

SPECIAL VOTING UNITS AND CLASS B LP UNITS

The REIT is authorized to issue an unlimited number of Special Voting Units. The Declaration of Trust and the exchange agreement provide for the issuance of the Special Voting Units, which have no economic entitlement in the REIT or in the distribution 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, 2019, the REIT valued the Class B LP Units based on the closing price of the TSX-listed Units, which resulted in a fair value liability of $318,455 (2018 - $295,376) and a corresponding fair value loss for the year ended December 31, 2019 of $23,079 (2018 - $36,513). For the year ended December 31, 2019, distributions on Class B LP Units amounting to $11,756 (2018 - $11,422) are included in interest expense.

As at December 31, 2019, Morguard owned a 44.8% effective interest in the REIT through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

As at December 31, 2019, there were 38,979,702 Units and 17,223,090 exchangeable Class B LP Units issued and outstanding.

As at February 11, 2020, there were 38,983,086 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, 2019, fees and distributions amounting to $8,583 (2018 - $8,422) are included in property operating costs and equity income from investments.

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, 2019, fees and distributions amounting to $12,154 (2018 - $11,350) are included in trust expenses and equity income from investments.

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, 2019, acquisition fees relating to acquisition services amounted to $1,315 (2018 - $110).

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, 2019, fees relating to financing services amounted to $331 (2018 - $121) 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. For the year ended December 31, 2019, fees relating to development services amounting to $72 (2018 - $nil) are included in property under development.

Other Services

As at December 31, 2019, and 2018, the REIT had its portfolio appraised by Morguard's appraisal division. Fees relating to appraisal services for the year ended December 31, 2019, amounting to $216 (2018 - $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, 2019 and 2018, 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, 2019.

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 primarily influenced by revenue growth, 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 2019 valued approximately $15 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, 2019, 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, lease liability and the convertible debentures.

Financial assets must be classified and measured on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Fair values of financial assets and liabilities are presented as follows:

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The fair values of the mortgages payable and Class C LP Units have been determined by discounting the cash flows of these financial obligations using December 31, 2019, market rates for debts of similar terms. Based on these assumptions, as at December 31, 2019, the fair values of the mortgages payable and Class C LP Units before deferred financing costs and present value of tax payment are estimated at $1,181,206 and $79,914 (2018 - $1,239,641 and $83,865), respectively. The fair values of the mortgages payable and Class C LP Units vary from their carrying values due to fluctuations in market interest rates since their issue.

The fair value of the convertible debentures are based on their market trading price. As at December 31, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $91,400 (2018 - $85,500), compared with the carrying value of $85,223 (2018 - $85,223).

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

ADOPTION OF ACCOUNTING STANDARDS

CURRENT ACCOUNTING POLICY CHANGES

IFRS 16, *Leases* (“IFRS 16”)

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

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

Leases previously classified as finance leases

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

Leases previously accounted for as operating leases

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

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

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

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

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, 2019, dated February 11, 2020, 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.

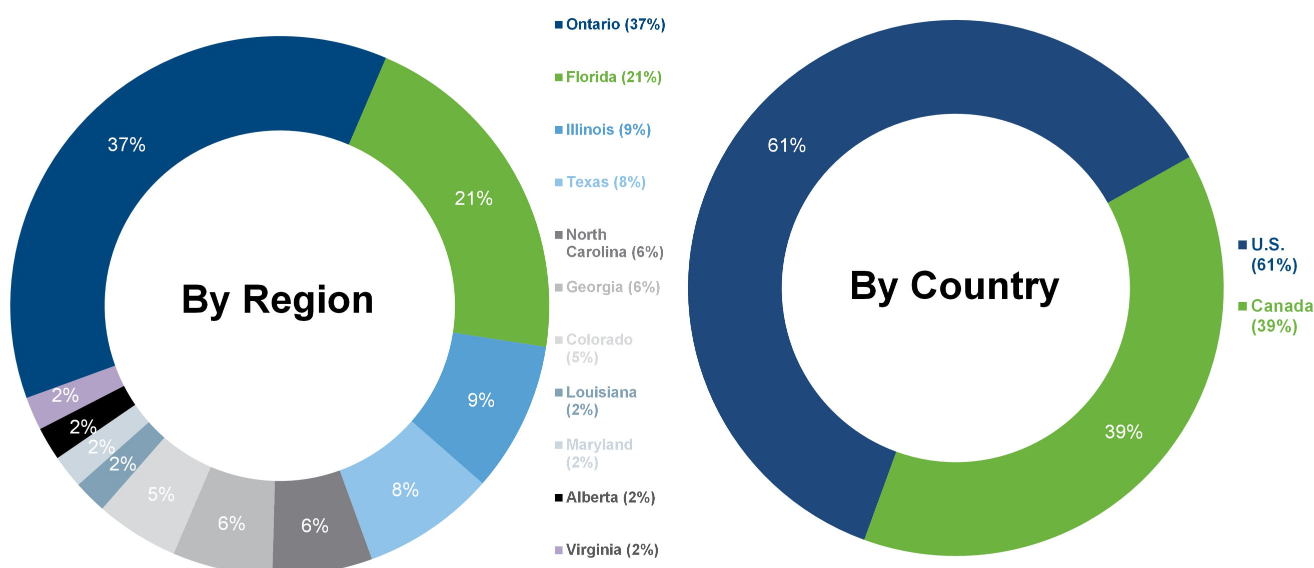
Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments 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, 2019, the portfolio diversification (inclusive of equity-accounted investments) 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, 2019, the Canadian dollar value was US$0.77 compared to US$0.73 a year earlier. The average exchange rate for the year ended December 31, 2019, was US$0.75 compared to US$0.77 during 2018. The strengthening of the Canadian dollar during 2019 resulted in an unrealized foreign currency translation loss of $38,799 for the year ended December 31, 2019, recognized in other comprehensive income ("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 2019, the guideline amount was established at 1.8% (1.8% for 2018). 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 69.4% 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 44.8% 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 partnership or trust includes a publicly listed or traded partnership or trust such as an income trust. Under the SIFT Rules, certain distributions will not be deductible in computing the SIFT trust’s taxable income, and the SIFT trust 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 trust 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 2020 or 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 (the “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, 2019. 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, 2019.
An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. This policy aims in particular at identifying material information and validating the related reporting. Morguard's Disclosure Committee, established in 2005, is responsible for ensuring compliance with this policy for both Morguard and the REIT. Morguard's senior management acts as the Disclosure Committee, ensuring compliance with this policy and reviewing main documents to be filed with regulatory authorities to ensure that all significant information regarding operations is communicated in a timely manner.

PART VIII

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)	2019	2018	2017
Revenue from real estate properties	**$245,596**	$241,368	$226,495
NOI	**132,862**	131,693	122,736
NOI per Unit[1]			
- basic	**2.52**	2.59	2.42
- diluted	**2.33**	2.38	2.24
Net income attributable to Unitholders	**76,815**	172,225	160,437
Net income attributable to Unitholders per Unit[1]			
- basic	**1.46**	3.38	3.16
- diluted	**1.35**	3.12	2.93
FFO			
- basic	**64,218**	61,161	59,725
- diluted	**68,066**	64,983	62,515
FFO per Unit[1]			
- basic	**1.22**	1.20	1.18
- diluted	**1.19**	1.18	1.14
Distributions declared[2]	**36,018**	33,784	32,681
Distributions per Unit (annualized)	**0.6826**	0.6632	0.6433
Total assets	**3,033,427**	3,011,469	2,651,097
Non-current portion of financial liabilities			
Mortgages payable and Class C LP Units	**1,200,587**	1,195,709	1,173,049
Convertible debentures	**86,398**	84,769	—
Class B LP Units	**318,455**	295,376	258,863
Lease liability	**9,286**	9,754	8,970
Number of suites	**13,277**	13,430	13,314

(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 (Loss) Attributable to Unitholders	Net Income (Loss) Attributable to Unitholders per Unit	
					Basic	Diluted[1]
December 31, 2019	**$61,243**	**$38,998**	**$17,127**	**$34,576**	**$0.64**	**$0.54**
September 30, 2019	61,135	38,038	16,148	(1,950)	(0.05)	(0.03)
June 30, 2019	60,960	38,989	15,697	40,719	0.80	0.77
March 31, 2019	62,258	16,837	15,246	3,470	0.07	0.07
December 31, 2018	62,129	38,077	15,215	54,380	1.07	0.94
September 30, 2018	61,172	38,183	15,510	21,550	0.41	0.41
June 30, 2018	59,973	38,323	15,687	17,620	0.35	0.34
March 31, 2018	58,094	17,110	14,749	78,675	1.55	1.43

(1) Units also include the dilutive impact of the convertible debentures.

SUMMARY OF QUARTERLY RESULTS

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

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

During the fourth quarter of 2019, the REIT acquired a 50% interest in a property comprising 690 suites accounted for as an equity investment. The operating results are recognized within equity income (loss) from investments.

During the second quarter of 2019, the REIT disposed of a property comprising 48 suites.

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

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

Revenue and Net Operating Income

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

In Canada, certain provinces and territories have enacted residential tenancy legislation that, among other things, imposes rent control guidelines that limit the REIT's ability to raise rental rates at its properties. For the calendar year 2019, the Ontario guideline increase amount was established at 1.8% (1.8% for 2018). 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 since the quarter ended March 31, 2019, is the result of the impact of the disposal of five properties during the first half of 2019, which was partially offset by an increase in Same Property revenue.

As at December 31, 2019, Same Property occupancy in Canada was 98.8%, 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, 2019, Same Property occupancy in the U.S. was 94.6% as the REIT's overall U.S. occupancy reached near optimum levels maintaining between 94% and 96%, resulting from improved marketing efforts and a continued focus on the overall resident experience.

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

Net Income (Loss) Attributable to Unitholders

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

- The REIT has recorded a fair value gain on real estate properties for the years ended December 31, 2019 and 2018, 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;
- 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.

Fourth Quarter Results 2019

For the three months ended December 31 (In thousands of dollars)	2019	2018
Revenue from real estate properties	**$61,243**	$62,129
Property operating expenses		
Property operating costs	**(15,691)**	(16,201)
Realty taxes	**(1,860)**	(3,396)
Utilities	**(4,694)**	(4,455)
Net operating income	**38,998**	38,077
Other expenses (income)		
Interest expense	**13,688**	17,564
Trust expenses	**3,710**	3,526
Equity loss from investments	**2,068**	638
Foreign exchange loss (gain)	**368**	(1,503)
Other expense (income)	**(875)**	13
Income before fair value changes and income taxes	**20,039**	17,839
Fair value gain (loss) on real estate properties, net	**(12,450)**	46,429
Fair value gain (loss) on Class B LP Units	**23,423**	(19,634)
Income before income taxes	**31,012**	44,634
Provision for (recovery of) income taxes		
Current	**33**	139
Deferred	**(4,918)**	(5,110)
	(4,885)	(4,971)
Net income for the period	**$35,897**	$49,605
Net income (loss) attributable to:		
Unitholders	**$34,576**	$54,380
Non-controlling interest	**1,321**	(4,775)
	$35,897	$49,605

The REIT's net income attributable to Unitholders for the three months ended December 31, 2019, decreased by $19,804 to $34,576, compared to $54,380 for the three months ended December 31, 2018. The decrease in net income was primarily due to the following:

- A fair value decrease on real estate properties of $58,879, resulting from a fair value loss of $12,450 recorded during the fourth quarter of 2019, compared to a fair value gain of $46,429 in 2018;
- An increase of $6,096 in non-controlling interest share of net income primarily as a result of a decrease in fair value loss on real estate properties;
- An increase in equity loss from investments of $1,430, resulting from a higher fair value loss on real estate properties, which was mainly due to acquisition costs in connection with the Marquee at Block 37 that were initially capitalized; and
- An increase in foreign exchange loss of $1,871.

These items were partially offset by the following:

- A fair value increase of $43,057 on Class B LP Units due to a decrease in trading price of the Units during the fourth quarter of 2019, compared to an increase in trading price in the same period in 2018;
- A decrease of $3,497 in the fair value on the convertible debentures' conversion option included in interest expense;
- An increase in other income of $888, mainly from higher interest income earned from the Morguard Facility; and
- An increase in NOI of $921, largely attributable to an increase in AMR and lower realty taxes. In addition, disposal of the five Louisiana properties during 2019, partly offset the increase in NOI.

PART IX

RECONCILIATION OF NON-IFRS MEASURES

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

BALANCE SHEETS

As at December 31, 2019	IFRS	Non-IFRS Adjustments NCI Share	Non-IFRS Adjustments Equity Interest	Proportionate Basis (Non-IFRS)
ASSETS				
Non-current assets				
Real estate properties	$2,872,658	($190,035)	$257,618	$2,940,241
Equity-accounted investments	106,521	—	(106,521)	—
	2,979,179	(190,035)	151,097	2,940,241
Current assets				
Morguard Facility	19,972	—	—	19,972
Amounts receivable	3,332	(227)	699	3,804
Prepaid expenses	4,106	(163)	561	4,504
Restricted cash	9,090	(120)	795	9,765
Cash	17,748	(210)	696	18,234
	54,248	(720)	2,751	56,279
	$3,033,427	($190,755)	$153,848	$2,996,520
LIABILITIES AND EQUITY				
Non-current liabilities				
Mortgages payable and Class C LP Units	$1,200,587	($97,973)	$152,363	$1,254,977
Convertible debentures	86,398	—	—	86,398
Class B LP Units	318,455	—	—	318,455
Deferred income tax liabilities	114,763	—	—	114,763
Accounts payable and accrued liabilities	9,286	—	—	9,286
	1,729,489	(97,973)	152,363	1,783,879
Current liabilities				
Mortgages payable and Class C LP Units	29,718	(62)	—	29,656
Accounts payable and accrued liabilities	48,427	(3,290)	1,485	46,622
	78,145	(3,352)	1,485	76,278
Total liabilities	1,807,634	(101,325)	153,848	1,860,157
EQUITY				
Unitholders' equity	1,136,363	—	—	1,136,363
Non-controlling interest	89,430	(89,430)	—	—
Total equity	1,225,793	(89,430)	—	1,136,363
	$3,033,427	($190,755)	$153,848	$2,996,520

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

As at December 31, 2019	IFRS	Non-IFRS Adjustments NCI Share	Non-IFRS Adjustments Equity Interest	Proportionate Basis (Non-IFRS)
Total Assets / Gross book value[1]	$3,033,427	($190,755)	$153,848	$2,996,520
Mortgage payable and Class C LP Units	$1,230,305	($98,035)	$152,363	$1,284,633
Add: deferred financing costs	12,138	(428)	863	12,573
	1,242,443	(98,463)	153,226	1,297,206
Convertible debentures, face value	85,500	—	—	85,500
Lease liability	9,286	—	—	9,286
Indebtedness	$1,337,229	($98,463)	$153,226	$1,391,992
Indebtedness / Gross book value	44.1%			46.5%

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

STATEMENTS OF INCOME

					2019				2018
		Non-IFRS Adjustments					Non-IFRS Adjustments		
For the years ended December 31 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**IFRIC 21**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	Proportionate Basis (Non-IFRS)
Revenue from properties									
Same Property	**$242,544**	**($15,187)**	**$6,858**	**$—**	**$234,215**	$230,525	($14,589)	$6,590	$222,526
Acquisitions / Dispositions	**3,052**	**—**	**769**	**—**	**3,821**	10,843	(888)	—	9,955
Total revenue from properties	**245,596**	**(15,187)**	**7,627**	**—**	**238,036**	241,368	(15,477)	6,590	232,481
Property operating expenses									
Same Property									
Operating costs	**61,676**	**(3,581)**	**2,040**	**—**	**60,135**	56,835	(3,477)	2,038	55,396
Realty taxes	**31,241**	**(2,490)**	**1,089**	**—**	**29,840**	29,610	(2,189)	1,075	28,496
Utilities	**17,717**	**(626)**	**572**	**—**	**17,663**	17,493	(603)	500	17,390
Same Property	**110,634**	**(6,697)**	**3,701**	**—**	**107,638**	103,938	(6,269)	3,613	101,282
Acquisitions / Dispositions	**2,100**	**—**	**225**	**(265)**	**2,060**	5,737	(327)	—	5,410
Total property operating expenses	**112,734**	**(6,697)**	**3,926**	**(265)**	**109,698**	109,675	(6,596)	3,613	106,692
NOI									
Same Property	**131,910**	**(8,490)**	**3,157**	**—**	**126,577**	126,587	(8,320)	2,977	121,244
Acquisitions / Dispositions	**952**	**—**	**544**	**265**	**1,761**	5,106	(561)	—	4,545
Total NOI[(1)]	**132,862**	**(8,490)**	**3,701**	**265**	**128,338**	131,693	(8,881)	2,977	125,789
Other expenses (income)									
Interest expense	**65,812**	**(3,822)**	**1,970**	**—**	**63,960**	66,083	(3,923)	1,708	63,868
Trust expenses	**14,343**	**(300)**	**249**	**—**	**14,292**	13,765	(272)	215	13,708
Equity income from investments	**(97)**	**—**	**97**	**—**	**—**	(271)	—	271	—
Foreign exchange loss (gain)	**854**	**—**	**—**	**—**	**854**	(2,280)	—	—	(2,280)
Other income	**(1,505)**	**—**	**—**	**—**	**(1,505)**	(65)	—	—	(65)
Income before fair value changes and income taxes	**53,455**	**(4,368)**	**1,385**	**265**	**50,737**	54,461	(4,686)	783	50,558
Fair value gain on real estate properties, net	**55,977**	**1,055**	**(1,385)**	**(265)**	**55,382**	180,283	2,201	(783)	181,701
Fair value loss on Class B LP Units	**(23,079)**	**—**	**—**	**—**	**(23,079)**	(36,513)	—	—	(36,513)
Income before income taxes	**86,353**	**(3,313)**	**—**	**—**	**83,040**	198,231	(2,485)	—	195,746
Provision for income taxes									
Current	**132**	**—**	**—**	**—**	**132**	233	—	—	233
Deferred	**6,093**	**—**	**—**	**—**	**6,093**	23,288	—	—	23,288
	6,225	**—**	**—**	**—**	**6,225**	23,521	—	—	23,521
Net income for the year	**$80,128**	**($3,313)**	**$—**	**$—**	**$76,815**	$174,710	($2,485)	$—	$172,225
(1) NOI included the following:									
IFRIC 21	**$408**	**$—**	**($143)**	**($265)**	**$—**	$—	$—	$—	$—

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

					2019				2018
		Non-IFRS Adjustments					Non-IFRS Adjustments		
For the years ended December 31 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**IFRIC 21**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	Proportionate Basis (Non-IFRS)
NOI	$132,862	($8,490)	$3,701	$265	$128,338	$131,693	($8,881)	$2,977	$125,789
IFRIC 21 adjustment	408	—	(143)	(265)	—	—	—	—	—
Trust expenses	(14,343)	300	(249)	—	(14,292)	(13,765)	272	(215)	(13,708)
Other income	1,505	—	—	—	1,505	65	—	—	65
	$120,432	**($8,190)**	**$3,309**	**$—**	**$115,551**	**$117,993**	**($8,609)**	**$2,762**	**$112,146**
Interest expense	$65,812	($3,822)	$1,970	$—	$63,960	$66,083	($3,923)	$1,708	$63,868
Loss on extinguishment of mortgages	(561)	—	—	—	(561)	—	—	—	—
Amortization of mark-to-market adjustment on mortgages	—	—	—	—	—	443	—	—	443
Fair value loss on conversion option on the convertible debentures	(1,003)	—	—	—	(1,003)	(1,587)	—	—	(1,587)
Distributions on Class B LP Units	(11,756)	—	—	—	(11,756)	(11,422)	—	—	(11,422)
	$52,492	**($3,822)**	**$1,970**	**$—**	**$50,640**	**$53,517**	**($3,923)**	**$1,708**	**$51,302**
Interest coverage ratio	**2.29**				**2.28**	**2.20**			**2.19**
Indebtedness coverage ratio	**1.60**				**1.59**	**1.58**			**1.55**

PART X

OUTLOOK

2019 was another strong year for Canada's multi-suite residential purpose-built rental sector. Demand patterns were strong across much of the country, driven by moderate economic growth, solid labour market growth, healthy international and interprovincial migration trends, population growth and ongoing demographic shifts. Additionally, many families were forced to rent accommodation given the high cost of home ownership and by the implementation of more stringent mortgage qualification guidelines. Higher interest rates and the Office of the Superintendent of Financial Institutions (OFSI) Guideline B-20 "Stress Test" implementation further strengthened multi-suite residential rental demand. Rental demand continued to support cycle-low vacancy levels, rent growth and a marked increase in new development activity in most regions. Investors looked to capitalize on the sector's continued growth outlook.

Investment demand outpaced the supply of multi-suite residential rental properties available for sale resulting in continued downward pressure on cycle-low cap rates. Both high-quality assets in major markets and properties with value-add attributes were in demand in 2019. Despite the supply shortfall, properties in this sector continued to trade at a record-high pace.

In 2020, Canada's multi-suite residential sector is expected to post positive returns and AMR uplift on turnover to mirror those of 2019. The Canadian economy is expected to grow, although at a moderate pace of roughly 1.5% on an annualized basis in 2020. The risks associated with this outlook include the continued trade war between China and the U.S., record-high household debt, a slower U.S., European and global economic growth outlook and the potential impacts of geopolitical events.

The U.S. multi-suite residential purpose-built rental sector generated largely stable and healthy performance characteristics in 2019. Rental demand has kept pace with new supply, driven by one of the longest economic expansion cycles of all time, continued above-average job growth and demographic trends. A shortage of affordable housing has also boosted demand for rental accommodation. Rising prices in the housing market also boosted demand for rental accommodation. The stability and health of the sector's demand cycle supported cycle-high and stable average rents. Rental growth was strongest for the lower-rent market segment, which posted record-high occupancy levels and demand outdistanced existing supply. Rent growth was more moderate for the aspirational rental market, which has been the focus of new development activity over the past few years. The health of the sector's rental fundamentals and outlook attracted investors looking for attractive yields.

The U.S. multi-suite residential sector is expected to post broadly positive performance characteristics in 2020. Rental market conditions will be slightly more balanced, given a marked increase in new supply completions. Rental demand will continue to be bolstered by a strong national propensity to rent, shortages of affordable housing, demographic trends and a moderately healthy economy and labour market. While rental conditions will be slightly more balanced, average rents will hold at the cycle-high with slight increases in a few regions. The positive sector outlook will continue to support strong investment activity levels. Value add and stabilized assets will remain popular with investors looking for sources of attractive yield. The strength of the demand cycle will result in mild downward pressure on cap rates in 2020.

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 2020.

CONSOLIDATED FINANCIAL STATEMENTS

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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, 2019 and 2018, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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, 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 & 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 of this other information, we are required to report that fact in this auditor's report. 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 on this other information, we conclude there is a material misstatement of 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.

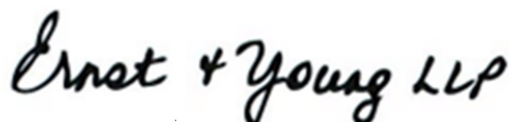
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 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.



Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
February 11, 2020

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31	Note	2019	2018
ASSETS			
Non-current assets			
Real estate properties	5	**$2,872,658**	$2,932,835
Equity-accounted investments	6	**106,521**	40,859
		2,979,179	2,973,694
Current assets			
Morguard Facility	10	**19,972**	—
Amounts receivable		**3,332**	3,652
Prepaid expenses		**4,106**	4,164
Restricted cash		**9,090**	13,173
Cash		**17,748**	16,786
		54,248	37,775
		$3,033,427	$3,011,469
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable and Class C LP Units	7	**$1,200,587**	$1,195,709
Convertible debentures	8	**86,398**	84,769
Class B LP Units	9	**318,455**	295,376
Deferred income tax liabilities	17	**114,763**	114,351
Accounts payable and accrued liabilities	11	**9,286**	9,754
		1,729,489	1,699,959
Current liabilities			
Mortgages payable and Class C LP Units	7	**29,718**	124,418
Morguard Facility	10	**—**	12,803
Accounts payable and accrued liabilities	11	**48,427**	46,428
		78,145	183,649
Total liabilities		**1,807,634**	1,883,608
EQUITY			
Unitholders' equity		**1,136,363**	1,018,423
Non-controlling interest		**89,430**	109,438
Total equity		**1,225,793**	1,127,861
		$3,033,427	$3,011,469

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	2019	2018
Revenue from real estate properties	13	**$245,596**	$241,368
Property operating expenses			
Property operating costs		**(62,898)**	(61,099)
Realty taxes		**(31,860)**	(30,199)
Utilities		**(17,976)**	(18,377)
Net operating income		**132,862**	131,693
Other expenses (income)			
Interest expense	14	**65,812**	66,083
Trust expenses	15	**14,343**	13,765
Equity income from investments	6	**(97)**	(271)
Foreign exchange loss (gain)		**854**	(2,280)
Other income		**(1,505)**	(65)
Income before fair value changes and income taxes		**53,455**	54,461
Fair value gain on real estate properties, net		**55,977**	180,283
Fair value loss on Class B LP Units	9	**(23,079)**	(36,513)
Income before income taxes		**86,353**	198,231
Provision for income taxes	17		
Current		**132**	233
Deferred		**6,093**	23,288
		6,225	23,521
Net income for the year		**$80,128**	$174,710
Net income attributable to:			
Unitholders		**$76,815**	$172,225
Non-controlling interest		**3,313**	2,485
		$80,128	$174,710

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the years ended December 31	2019	2018
Net income for the year	**$80,128**	$174,710
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may be reclassified subsequently to net income:		
Unrealized foreign currency translation gain (loss)	**(38,799)**	61,345
Total comprehensive income for the year	**$41,329**	$236,055
Total comprehensive income (loss) attributable to:		
Unitholders	**$42,313**	$225,933
Non-controlling interest	**(984)**	10,122
	$41,329	$236,055

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, 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		480	—	(480)	—	—	—	—
Issue of Units - debentures converted		23	—	—	—	23	—	23
Distributions		—	—	(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
Changes during the year:								
Net income		**—**	**—**	**76,815**	**—**	**76,815**	**3,313**	**80,128**
Other comprehensive loss		**—**	**—**	**—**	**(34,502)**	**(34,502)**	**(4,297)**	**(38,799)**
Increase in subsidiary ownership interest		**—**	**—**	**—**	**—**	**—**	**(15,497)**	**(15,497)**
Issue of Units	12(d)	**99,591**	**—**	**—**	**—**	**99,591**	**—**	**99,591**
Issue of Units - DRIP	12(d)	**563**	**—**	**(563)**	**—**	**—**	**—**	**—**
Distributions	12(d)	**—**	**—**	**(23,964)**	**—**	**(23,964)**	**(3,527)**	**(27,491)**
Unitholders' equity, December 31, 2019		**$468,585**	**$48,762**	**$534,893**	**$84,123**	**$1,136,363**	**$89,430**	**$1,225,793**

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the years ended December 31	Note	2019	2018
OPERATING ACTIVITIES			
Net income		**$80,128**	$174,710
Add (deduct) items not affecting cash	18(a)	**(19,842)**	(114,607)
Additions to tenant incentives		**(608)**	(2,120)
Net change in non-cash operating assets and liabilities	18(b)	**2,805**	1,964
Cash provided by operating activities		**62,483**	59,947
INVESTING ACTIVITIES			
Additions to income producing properties	5	**(30,628)**	(28,950)
Additions to property under development	5	**(6,995)**	(1,165)
Proceeds from sale of income producing properties, net	5	**38,626**	—
Acquisition of property under development		**—**	(14,866)
Investment in equity-accounted investments	6	**(68,834)**	—
Cash used in investing activities		**(67,831)**	(44,981)
FINANCING ACTIVITIES			
Proceeds from issuance of Units, net of costs	12(d)	**99,591**	—
Proceeds from new mortgages	7	**109,302**	80,000
Financing cost on new mortgages		**(1,434)**	(905)
Repayment of mortgages and Class C LP Units			
Repayments on maturity	7	**(101,555)**	(67,892)
Repayment due to mortgage extinguishment	5	**(11,331)**	—
Principal instalment repayments		**(22,640)**	(21,364)
Proceeds from issuance of convertible debentures, net of costs		**—**	82,125
Redemption of convertible debentures		**—**	(59,977)
Increase in subsidiary ownership interest	5	**(8,014)**	—
Repayment of Morguard Facility		**(139,391)**	(103,297)
Proceeds from Morguard Facility		**105,212**	96,293
Distributions to Unitholders		**(23,601)**	(21,818)
Distributions to non-controlling interest		**(3,527)**	(4,048)
Decrease (increase) in restricted cash		**3,460**	(2,539)
Cash provided by (used in) financing activities		**6,072**	(23,422)
Net increase (decrease) in cash during the year		**724**	(8,456)
Net effect of foreign currency translation on cash balance		**238**	121
Cash, beginning of year		**16,786**	25,121
Cash, end of year		**$17,748**	$16,786

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 2019 and 2018

In thousands of Canadian dollars, except Unit and per Unit amounts and where otherwise noted

NOTE 1

NATURE AND FORMATION OF TRUST

Morguard North American Residential Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust established pursuant to a Declaration of Trust dated March 1, 2012, and as amended and restated on April 18, 2012 (the "Declaration of Trust"), under and governed by the laws of the Province of Ontario. The trust units of the REIT ("Units") trade on the Toronto Stock Exchange ("TSX") under the symbol "MRG.UN." The REIT invests in multi-suite residential rental properties in Canada and the United States. The REIT's head office is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3.

The REIT holds its investments in its real estate properties through its ownership in Morguard NAR Canada Limited Partnership (the "Partnership"). As at December 31, 2019, Morguard Corporation ("Morguard"), the parent company of the REIT, holds an indirect 44.8% interest through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These 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 11, 2020.

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 on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are 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:

Financial Assets	
Amounts receivable	Amortized cost
Morguard Facility	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial Liabilities	
Mortgages payable and Class C LP Units	Amortized cost
Convertible debentures, excluding conversion option	Amortized cost
Morguard Facility	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liability	Amortized cost
Conversion option of convertible debentures	FVTPL
Class B LP Units	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 IFRS 16, *Leases* ("IFRS 16") 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. real estate properties based on the rebuttable presumption that the carrying amount of the real estate property is recovered through sale, as opposed to presuming that the economic benefits of the real estate 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:

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at December 31	**$0.7699**	$0.7330
- Average for the year ended December 31	**0.7536**	0.7718
United States dollar to Canadian dollar exchange rates:		
- As at December 31	**1.2988**	1.3642
- Average for the year ended December 31	**1.3269**	1.2957

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 primarily influenced by revenue growth, 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 16, *Leases*

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

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

Leases previously classified as finance leases

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

Leases previously accounted for as operating leases

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

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

At the commencement date of a lease, the REIT will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Certain right-of-use assets related to land leases meet the definition of investment property under IAS 40, *Investment Property*; therefore, the fair value

model is applied to those assets. Interest expense on the lease liability and the fair value gain (loss) on the right-of-use asset is recognized separately.

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

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

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

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

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

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

NOTE 4
SUBSIDIARIES WITH NON-CONTROLLING INTEREST

As at December 31, 2019, 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	2019	2018
Non-current assets	**$372,626**	$392,617
Current assets	**1,035**	2,345
Total assets	**$373,661**	$394,962
Non-current liabilities	**$195,398**	$205,753
Current liabilities	**5,251**	5,123
Total liabilities	**$200,649**	$210,876
Equity	**$173,012**	$184,086
Non-controlling interest	**$84,776**	$90,202

For the years ended December 31	2019	2018
Revenue from income producing properties	**$28,649**	$27,519
Expenses	**(20,764)**	(19,728)
Fair value loss on income producing properties	**(3,524)**	(12,282)
Net income (loss) for the year	**$4,361**	($4,491)
Non-controlling interest	**$2,137**	($2,201)

For the years ended December 31	2019	2018
Cash provided by operating activities	**$8,666**	$8,965
Cash used in investing activities	**(2,612)**	(2,113)
Cash used in financing activities	**(7,415)**	(8,315)
Net decrease in cash during the year	**($1,361)**	($1,463)

NOTE 5
REAL ESTATE PROPERTIES

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

As at December 31	2019			2018
	Income Producing Properties	Property Under Development	Total	Total
Balance, beginning of year	**$2,916,118**	**$16,717**	**$2,932,835**	$2,570,589
Additions:				
Acquisition of property under development	**—**	**—**	**—**	14,866
Capital expenditures	**30,628**	**—**	**30,628**	28,950
Development expenditures	**—**	**6,995**	**6,995**	1,165
Dispositions	**(63,809)**	**—**	**(63,809)**	—
Fair value gain, net	**55,569**	**—**	**55,569**	180,283
Foreign currency translation	**(80,659)**	**(949)**	**(81,608)**	135,754
Other	**(7,952)**	**—**	**(7,952)**	1,228
Balance, end of year	**$2,849,895**	**$22,763**	**$2,872,658**	$2,932,835

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

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

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

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

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

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

As at December 31, 2019, and 2018, the REIT had its portfolio appraised by Morguard's appraisal division. In addition, the REIT's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

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

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, 2019, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 6.8% (2018 - 4.0% to 7.8%) applied to a stabilized net operating income of $133,706 (2018 - $138,449), resulting in an overall weighted average capitalization rate of 4.7% (2018 - 4.7%).

Fair values are most sensitive to changes in capitalization rates and stabilized net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the real estate properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted

average stabilized capitalization rate were to increase or decrease by 25 basis points (assuming no change to stabilized net operating income), the value of the real estate properties as at December 31, 2019 would decrease by $144,802 or increase by $161,374, respectively.

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

	December 31, 2019					December 31, 2018				
	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%	96.0%	4.5%	4.0%	4.2%
United States										
Colorado	**95.0%**	**95.0%**	**5.3%**	**5.3%**	**5.3%**	95.0%	95.0%	5.3%	5.3%	5.3%
Texas	**95.0%**	**95.0%**	**5.3%**	**5.0%**	**5.0%**	95.0%	94.0%	5.3%	5.0%	5.1%
Louisiana	**95.0%**	**95.0%**	**6.8%**	**5.5%**	**6.0%**	97.0%	90.0%	7.8%	5.5%	6.8%
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%	5.5%	5.0%	5.4%
Florida	**96.0%**	**93.5%**	**6.5%**	**4.8%**	**5.5%**	95.0%	93.5%	6.5%	5.0%	5.5%
North Carolina	**94.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	94.0%	94.0%	5.3%	5.0%	5.1%
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 INVESTMENTS

On December 9, 2019, the REIT acquired a 50% interest in a property comprising 690 suites located in Chicago, Illinois, ("Marquee at Block 37") for $68,834 (US$52,009). The REIT has joint control of the investment and accounts for its investment using the equity method. The purchase price of the property (on a 100% basis) was $355,465 (US$268,580), including closing costs and was partially funded by a mortgage in the amount of $218,378 (US$165,000) at an interest rate of 3.27% for a term of 10 years.

The following is the REIT's equity-accounted investments as at December 31, 2019, and 2018:

			REIT's Ownership		**Carrying Value**	
Property	**Principal Place of Business**	**Investment Type**	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
The Fenestra	Rockville, MD	Joint Venture	**50%**	50%	**$41,147**	$40,859
Marquee at Block 37	Chicago, IL	Joint Venture	**50%**	—%	**65,374**	—
					$106,521	$40,859

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

As at December 31	**2019**	2018
Balance, beginning of year	**$40,859**	$37,295
Additions	**68,834**	—
Share of net income	**97**	271
Foreign exchange gain (loss)	**(3,269)**	3,293
Balance, end of year	**$106,521**	$40,859

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

As at December 31	2019	2018
Non-current assets	**$515,235**	$176,118
Current assets	**5,501**	3,863
Total assets	**$520,736**	$179,981
Non-current liabilities	**$304,725**	$95,997
Current liabilities	**2,970**	2,266
Total liabilities	**$307,695**	$98,263
Net assets	**$213,041**	$81,718
Equity-accounted investments	**$106,521**	$40,859

For the years ended December 31	2019	2018
Revenue	**$15,253**	$13,179
Expenses	**(12,289)**	(11,072)
Fair value loss on income producing property	**(2,771)**	(1,565)
Net income for the year	**$193**	$542
Income in equity-accounted investments	**$97**	$271

NOTE 7
MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at December 31			2019	2018
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,154,960**	**$78,588**	**$1,233,548**	$1,325,810
Deferred financing costs	**(11,653)**	**(485)**	**(12,138)**	(14,423)
Present value of tax payment on Class C LP Units	**—**	**8,895**	**8,895**	8,740
	$1,143,307	**$86,998**	**$1,230,305**	$1,320,127
Current	**$26,520**	**$3,198**	**$29,718**	$124,418
Non-current	**1,116,787**	**83,800**	**1,200,587**	1,195,709
	$1,143,307	**$86,998**	**$1,230,305**	$1,320,127
Range of interest rates	**2.25−4.25%**	**3.97%**	**2.25−4.25%**	2.25−4.25%
Weighted average interest rate	**3.45%**	**3.97%**	**3.48%**	3.49%
Weighted average term to maturity (years)	**5.9**	**1.5**	**5.6**	5.8
Fair value of mortgages and Class C LP Units	**$1,181,206**	**$79,914**	**$1,261,120**	$1,323,506

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 October 1, 2019, the REIT completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,302 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.

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, 2019, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Rate
2020	$23,425	$8,825	$32,250	4.25%
2021	24,643	75,280	99,923	3.97%
2022	26,610	68,574	95,184	3.76%
2023	23,779	147,991	171,770	3.47%
2024	20,867	140,446	161,313	3.29%
Thereafter	33,400	639,708	673,108	3.44%
	$152,724	$1,080,824	$1,233,548	3.48%

NOTE 8
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31	2019	2018
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**3,472**	2,469
Unamortized financing costs	**(2,297)**	(2,923)
	$86,398	$84,769

For the year ended December 31, 2019, interest on the convertible debentures amounting to $3,848 (2018 - $3,822) is included in interest expense (Note 14). As at December 31, 2019, $980 (2018 - $980) is included in accounts payable and accrued liabilities.

4.50% Convertible Unsecured Subordinated Debentures

On February 13, 2018, the REIT issued $75,000 principal amount of 4.50% convertible unsecured subordinated debentures (the "2018 Debentures") maturing on March 31, 2023 (the "Maturity Date"). On February 21, 2018, an additional principal amount of $10,500 was issued pursuant to the exercise of the over-allotment option. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year. 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, 2019, and 2018, $85,500 of the face value of the 2018 Debentures were outstanding.

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

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

4.65% Convertible Unsecured Subordinated Debentures

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

NOTE 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, 2019, the REIT valued the Class B LP Units based on the closing price of the TSX-listed Units, which resulted in a fair value liability of $318,455 (2018 - $295,376) and a corresponding fair value loss for the year ended December 31, 2019 of $23,079 (2018 - $36,513).

For the year ended December 31, 2019, distributions on Class B LP Units amounting to $11,756 (2018 - $11,422) are included in interest expense (Note 14).

As at December 31, 2019, and 2018, 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, 2019, the amount receivable under the Morguard Facility was $19,972, comprising an amount receivable of US$10,681 and a receivable of $6,100. As at December 31, 2018, the net amount payable under the Morguard Facility was $12,803, comprising an amount receivable of US$22,858 and a payable of $43,986.

During the year ended December 31, 2019, the REIT earned net interest income $1,404 (2018 - net interest expense of $19) on the Morguard Facility.

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	2019	2018
Accounts payable and accrued liabilities	**$37,164**	$35,123
Tenant deposits	**11,263**	11,305
Lease liability	**9,286**	9,754
	$57,713	$56,182
Current	**$48,427**	$46,428
Non-current	**9,286**	9,754
	$57,713	$56,182

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

As at December 31	2019	2018
Within 12 months	**$444**	$425
2 to 5 years	**1,793**	1,868
Over 5 years	**11,729**	12,806
Total minimum lease payments	**13,966**	15,099
Less: Future interest costs	**(4,680)**	(5,345)
Present value of minimum lease payments	**$9,286**	$9,754

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.

(b) Normal Course Issuer Bids

The REIT had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 2,556,288 Units and $8,050 principal amount of the Debentures. The program expired on December 20, 2019. On December 18, 2019, the REIT obtained the approval of the TSX under its normal course issuer bid to purchase up to 2,953,852 Units, being approximately 10% of the public float of outstanding Units; the program expires on December 20, 2020. The daily repurchase restriction for the Units is 17,964. 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 $11. 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, 2019, and 2018.

(c) Special Voting Units

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

(d) Units Outstanding

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

Issued and Fully Paid Units	Units	Amount
Balance, December 31, 2017	33,690,613	$367,928
Units issued under the DRIP	30,784	480
2013 Debentures converted	1,483	23
Balance, December 31, 2018	33,722,880	368,431
Issuance of Units for cash, net of costs	**5,226,200**	**99,591**
Units issued under the DRIP	**30,622**	**563**
Balance, December 31, 2019	**38,979,702**	**$468,585**

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

Total distributions declared during the year ended December 31, 2019, amounted to $24,527, or $0.6826 per Unit (2018 - $22,355, or $0.6632 per Unit), including distributions payable of $2,273 that were declared on December 13, 2019, and paid on January 15, 2020. On January 15, 2020, the REIT declared a distribution of $0.0583 per Unit payable on February 14, 2020.

(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, 2019, the REIT issued 30,622 Units under the DRIP (2018 - 30,784 Units).

(f) Accumulated Other Comprehensive Income

The accumulated other comprehensive income consists of the following amounts:

As at December 31	2019	2018
Unrealized foreign currency translation gain	**$84,123**	$118,625
Balance, end of year	**$84,123**	$118,625

NOTE 13
RENTAL INCOME

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

For the years ended December 31	2019	2018
Rental income	**$117,118**	$117,415
Property management and ancillary income	**92,317**	90,751
Property tax and insurance	**36,161**	33,202
	$245,596	$241,368

NOTE 14
INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31	2019	2018
Interest on mortgages	**$41,009**	$41,903
Interest and tax payment on Class C LP Units	**3,777**	3,848
Interest on the convertible debentures (Note 8)	**3,848**	3,822
Interest on lease liability	**413**	389
Amortization of mark-to-market adjustment on mortgages	**—**	(443)
Amortization of deferred financing costs	**2,819**	2,964
Amortization of deferred financing costs on the convertible debentures	**626**	591
Fair value loss on conversion option on the convertible debentures	**1,003**	1,587
Loss on extinguishment of mortgages payable	**561**	—
	54,056	54,661
Distributions on Class B LP Units (Note 9)	**11,756**	11,422
	$65,812	$66,083

NOTE 15
TRUST EXPENSES

The components of trust expenses are as follows:

For the years ended December 31	2019	2018
Asset management fees and distributions	**$11,908**	$11,138
Professional fees	**1,093**	1,152
Public company expenses	**796**	641
Other	**546**	834
	$14,343	$13,765

NOTE 16
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 7, 8, 9, 10 and 12(d), related party transactions also include the following:

Agreements with Morguard Affiliates

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

Property Management

Pursuant to the Agreements, Morguard’s affiliates administer the day-to-day operations of the Canadian and U.S. income producing properties, for which Morguard’s affiliates receive partnership fees and distributions equal to 3.5% of gross property revenue of the income producing properties, payable monthly. For the year ended December 31, 2019, fees and distributions amounting to $8,583 (2018 - $8,422) are included in property operating costs and equity income from investments. As at December 31, 2019, $595 (2018 - $654) is included in accounts payable and accrued liabilities.

Asset Management

Pursuant to the Agreements, Morguard’s affiliates have certain duties and responsibilities for the strategic management and administration of the Partnership and its subsidiaries, for which they receive partnership fees and distributions equal to 0.25% of the Partnership’s gross book value defined as acquisition cost of the REIT’s assets plus: (i) fair value adjustments; and (ii) accumulated amortization on property, plant and equipment. In addition, an annual fee and distribution is calculated in arrears, determined by multiplying 15% of the Partnership’s funds from operations in excess of $0.66 per Unit. For the year ended December 31, 2019, fees and distributions amounting to $12,154 (2018 - $11,350) and are included in trust expenses and equity income from investments. As at December 31, 2019, $5,711 (2018 - $5,469) is included in accounts payable and accrued liabilities.

Acquisition
Pursuant to the Agreements, Morguard's affiliates are entitled to receive partnership fees with respect to properties acquired, directly or indirectly, by the REIT from third parties, and the fees are to be paid upon the closing of the purchase of each such property. The fees range from 0% of the purchase price paid for properties acquired directly or indirectly from Morguard, including entities controlled by Morguard, up to 0.75% of the purchase price paid for properties acquired from third parties. For the year ended December 31, 2019, fees relating to acquisition services amounted to $1,315 (2018 - $110).

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, 2019, fees relating to financing services amounted to $331 (2018 - $121) 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. For the year ended December 31, 2019, fees relating to development services amounting to $72 (2018 - $nil) are included in property under development. As at December 31, 2019, $22 (2018 - $nil) is included in accounts payable and accrued liabilities.

Other Services
As at December 31, 2019, the REIT had its portfolio appraised by Morguard's appraisal division. For the year ended December 31, 2019, fees relating to appraisal services amounted to $216 (2018 - $232) and 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.

(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.

NOTE 17
INCOME TAXES
(a) Canadian Status
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.

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

(c) Income Tax Expense

For the years ended December 31	2019	2018
Current income taxes	**$132**	$233
Deferred income taxes		
Impact of foreign tax rates	**$9,240**	$23,155
Impact of change in foreign tax rate	**(2,052)**	393
Recognition of the benefit of tax losses	**(1,151)**	(910)
Other	**56**	650
	$6,093	$23,288
Income tax expense	**$6,225**	$23,521

(d) The Major Components of Deferred Income Tax Liabilities

As at December 31	2019	2018
Real estate properties	**$120,905**	$120,954
Net operating losses	**(3,014)**	(3,623)
Interest expense limitation	**(3,018)**	(2,799)
Other	**(110)**	(181)
Total net deferred income tax liabilities	**$114,763**	$114,351

(e) The REIT's Tax Losses

As at December 31, 2019, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$29,234 (2018 - US$30,075) of which no deferred tax assets were recognized as it is not probable that taxable profit will be available against such losses of which the deductible temporary difference can be utilized. The net operating losses expire in various years commencing in 2032.

As at December 31, 2019, the REIT's U.S. subsidiaries have a total of US$9,206 (2018 - US$8,172) of unutilized interest expense deductions on which deferred tax assets were recognized.

NOTE 18

CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

For the years ended December 31	2019	2018
Fair value gain on real estate properties, net	**($55,569)**	($180,283)
Fair value loss on Class B LP Units	**23,079**	36,513
Fair value loss on conversion option on the convertible debentures	**1,003**	1,587
Equity income from investment	**(97)**	(271)
Amortization of deferred financing - mortgages	**2,517**	2,665
Amortization of deferred financing - Class C LP Units	**302**	299
Amortization of deferred financing - convertible debentures	**626**	591
Present value adjustment of tax liability on Class C LP Units	**566**	555
Amortization of mark-to-market adjustment on mortgages	**—**	(443)
Loss on extinguishment of mortgages payable	**561**	—
Amortization of tenant incentives	**1,077**	892
Deferred income taxes	**6,093**	23,288
	($19,842)	($114,607)

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

For the years ended December 31	2019	2018
Amounts receivable	**$188**	$1,241
Prepaid expenses	**(118)**	(104)
Accounts payable and accrued liabilities	**2,735**	827
	$2,805	$1,964

(c) Supplemental Cash Flow Information

For the years ended December 31	2019	2018
Interest paid	**$48,344**	$48,429

(d) Reconciliation of Liabilities Arising from Financing Activities

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

As at December 31, 2019	Mortgages Payable and Class C LP	Convertible Debentures	Morguard Facility	Lease Liability	Total
Balance, beginning of year	$1,320,127	$84,769	$12,803	$9,754	$1,427,453
Repayments	(22,640)	—	(139,391)	—	(162,031)
New financing, net	107,868	—	105,212	—	213,080
Lump-sum repayments	(112,886)	—	—	—	(112,886)
Non-cash changes	(21,237)	1,629	—	—	(19,608)
Foreign exchange	(40,927)	—	1,404	(468)	(39,991)
Balance, end of year	**$1,230,305**	**$86,398**	**($19,972)**	**$9,286**	**$1,306,017**

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 lease liability. 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, 2019, and 2018, is summarized below:

As at December 31	2019	2018
Mortgages payable, principal balance	**$1,154,960**	$1,243,887
Class C LP Units and present value of tax payment, principal balance	**87,483**	90,663
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**—**	12,803
Lease liability	**9,286**	9,754
Class B LP Units	**318,455**	295,376
Unitholders' equity	**1,136,363**	1,018,423
	$2,792,047	$2,756,406

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	2019	2018
Total debt to gross book value	70%	**44.1%**	47.9%
Floating-rate debt to gross book value	20%	**—%**	0.4%

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

The fair values of the mortgages payable and Class C LP Units have been determined by discounting the cash flows of these financial obligations using December 31, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, as at December 31, 2019, the fair values of the mortgages payable and Class C LP Units before deferred financing costs and present value of tax payment are estimated at $1,181,206 and $79,914, (2018 - $1,239,641 and $83,865), respectively. The fair values of the mortgages payable and Class C LP Units vary from their carrying values due to fluctuations in market interest rates since their issue.

The fair value of the convertible debentures are based on their market trading price (Level 1). As at December 31, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $91,400 (2018 - $85,500), compared with the carrying value of $85,223 (2018 - $85,223).

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

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

	December 31, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$2,872,658**	$—	$—	$2,932,835
Financial liabilities:						
Class B LP Units	**318,455**	**—**	**—**	295,376	—	—
Conversion option of the convertible debentures	**—**	**3,472**	**—**	—	2,469	—

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, 2019, the REIT had no outstanding balance of floating interest rate debt.

The REIT's objective when managing interest rate risk is to minimize the volatility of the REIT's income. As at December 31, 2019, 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 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, 2019, 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 $1,211 and a change to other comprehensive income or loss of $29,015.

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$617,630 as at December 31, 2019 (2018 - US$643,911). 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	2019	2018
Trade receivables	**$1,310**	$1,378
Less: Allowance for doubtful accounts	**(468)**	(463)
Total trade receivables, net	**$842**	$915

(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, 2019, the REIT was holding cash of $17,748 and had no amount drawn on the $100,000 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 lease liability 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:

2020	US$342
2021	342
2022	342
2023	342
2024	355
Thereafter	88,188

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

	Annual rental expense
From October 1, 2019 to September 30, 2024	US$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 until 2113; 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 2019, the rental guideline increase was 1.8% (2018 - 1.8%).

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, 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, 2019			December 31, 2018		
For the years ended	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Revenue from real estate properties	**$93,332**	**$152,264**	**$245,596**	$89,811	$151,557	$241,368
Property operating expenses	**(40,409)**	**(72,325)**	**(112,734)**	(38,318)	(71,357)	(109,675)
Net operating income	**$52,923**	**$79,939**	**$132,862**	$51,493	$80,200	$131,693

	December 31, 2019			December 31, 2018		
As at	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Real estate properties	**$1,276,620**	**$1,596,038**	**$2,872,658**	$1,209,490	$1,723,345	$2,932,835
Mortgages payable and Class C LP Units	**$434,746**	**$795,559**	**$1,230,305**	$449,225	$870,902	$1,320,127

	December 31, 2019			December 31, 2018		
For the years ended	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Additions to real estate properties	**$14,267**	**$23,356**	**$37,623**	$12,521	$32,460	$44,981
Fair value gain (loss) on real estate properties	**$60,307**	**($4,330)**	**$55,977**	$127,369	$52,914	$180,283