Real Estate Potential. Realized.

MORGUARD NORTH AMERICAN RESIDENTIAL REAL ESTATE INVESTMENT TRUST

DECEMBER 31, 2019

CONSOLIDATED FINANCIAL STATEMENTS

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.

Ernst & Young LLP

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