2020 FOURTH QUARTER REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

MORGUARD NORTH AMERICAN RESIDENTIAL REIT

Q4

Morguard

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

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PART I

Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT" or the "REIT") is pleased to provide this review of operations and update on our financial performance for the year ended December 31, 2020. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per suite and REIT trust unit ("Unit") amounts.

The following Management's Discussion and Analysis ("MD&A") sets out the REIT's strategies and provides an analysis of the financial performance for the year ended December 31, 2020, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the REIT's audited consolidated financial statements and accompanying notes for the years ended December 31, 2020 and 2019. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 16, 2021. Disclosure contained in this document is current to that date unless otherwise noted.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words "anticipates", "believes", "may", "continue", "estimate", "expects" and "will" and words of similar expression, constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the REIT operates; changes in business strategy or development/acquisition plans; environmental exposures; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the REIT; risk and uncertainties relating to the outbreak of the novel strain of the coronavirus identified as COVID-19 and other factors referred to in the REIT's filings with Canadian securities regulators. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Morguard Residential REIT does not assume the obligation to update or revise any forward-looking statements.

Given the impact of the changing circumstances surrounding the COVID-19 pandemic and the related response from the REIT, governments (federal, state, provincial and municipal), regulatory authorities, businesses and customers, there is inherently more uncertainty associated with the REIT's assumptions as compared to prior periods. These assumptions and related risks, include but are not limited to management expectations with respect to the factors above as well as general economic conditions, such as the impact on the economy and financial markets of the COVID-19 pandemic and other health risks.

NON-IFRS FINANCIAL MEASURES

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

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

NET OPERATING INCOME (“NOI”) AND PROPORTIONATE SHARE NOI (“PROPORTIONATE NOI”)

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

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

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

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

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

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

SAME PROPERTY NOI / PROPORTIONATE NOI

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

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

INDEBTEDNESS

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

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

GROSS BOOK VALUE

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

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

INDEBTEDNESS TO GROSS BOOK VALUE RATIO

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

INTEREST COVERAGE RATIO

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

INDEBTEDNESS COVERAGE RATIO

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

FUNDS FROM OPERATIONS ("FFO")

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

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

PROPORTIONATE SHARE BASIS

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

Non-Controlling Interest Share ("NCI Share")

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

Equity-accounted Investments ("Equity Interest")

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

PART II

BUSINESS OVERVIEW AND STRATEGY

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

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

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

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

SIGNIFICANT EVENT

COVID-19 PANDEMIC

During March 2020, the outbreak of the novel strain of coronavirus (“COVID-19”) has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the REIT in future periods.

The REIT recognizes the impact COVID-19 has on many of its tenants in North America and its stakeholders, and is committed to taking measures to protect the health of its employees, tenants and communities. In March, Morguard initiated its crisis management plan with a team mandated to maintain a safe environment for our residents, employees and stakeholders, coordinating efforts across our portfolio, standardizing communications and responding as circumstances demand.

With the guidance of public health authorities, and at the direction of various levels of government, Morguard continues to implement measures to help reduce the spread of COVID-19. We are actively monitoring the ongoing developments with regards to COVID-19 and are committed to ensuring a healthy and safe environment, adjusting our service model as necessary.

On March 19, 2020, the Ontario government announced that in accordance with a new order, no new eviction notices will be issued until “further notice” and the enforcement of scheduled evictions will be postponed during the suspension of regular court operations in Ontario. The Landlord and Tenant Board (“LTB”) also announced the suspension of eviction orders and all hearings related to eviction applications (unless the matter relates to an urgent issue), although hearings for matters not relating to evictions will proceed by appropriate means (telephone or written hearing). However, tenants are required to pay rent while an eviction is not being enforced, as clarified by the Ontario government. If the tenant cannot pay due to the pandemic, landlords and tenants are encouraged to work together to come up with an alternative arrangement. In late July 2020, the Ontario government ended its moratorium on residential evictions after it lifted its state of emergency and the LTB began working through its backlog of pending eviction orders, gradually expanding services in August; however, all in-person service counters remain closed until further notice. Effective August 1, 2020, the LTB started to issue eviction orders that are pending, issue consent eviction orders which are based on landlord and tenants settling their dispute through an agreement and scheduled hearings for non-urgent evictions.

On December 26, 2020, the Ontario government announced another province-wide shutdown and stay-at-home Order; and further announced on February 8, 2021, the transition to a regional approach to staged reopening. During this state of emergency, the Ontario government has issued an emergency order temporarily halting the enforcement of residential evictions. While the LTB will continue to hear eviction applications and issue eviction orders, these orders will not be carried out while the province is under a state of emergency.

Ontario represents the REIT's largest region in terms of suites and net operating income and is committed to working with residents on a case-by-case basis on rent deferral arrangements discussed in more detail below.

In September 2020, the Government of Ontario introduced *Helping Tenants and Small Businesses Act* legislation to freeze rent in 2021, providing the vast majority of Ontario's tenants with financial relief as the province continues down the path of renewal, growth and economic recovery. Under Ontario's rent control legislation, a landlord is entitled to increase the rent for existing tenants once every 12 months by no more than the "guideline amount" based on the Ontario Consumer Price Index ("CPI"). The guideline increase cannot be more than 2.5%, even if the CPI increase is higher. For the calendar year 2021, the guideline amount was established at 0.0% (2.2% for 2020). However, a landlord could give proper 90 days' notice before the freeze ends for a rent increase that takes effect starting in 2022.

In the U.S. regions where the REIT operates, similar measures have been taken in late March and early April to pause evictions and late fees for a period of 120 days, expiring in late July 2020 and on September 4, 2020, the Department of Health and Human Services and the Centers for Disease Control and Prevention issued an order titled *Temporary Halt in Residential Evictions to Prevent the Further Spread of COVID-19* for eligible tenants until December 31, 2020 which has subsequently been extended to March 31, 2021. The new U.S. administration announced the American Rescue Plan, extending the eviction moratorium to March 31, 2021 and has allocated $25 billion in rental and utility assistance for rental relief to low- and moderate-income households who have lost jobs or are out of the labour market.

Rental Collection Summary

As at February 16, 2021, the REIT collected 98.7% of fourth quarter rental revenue and approximately 97.5% (98.0% in Canada / 97.1% in the U.S.) of January 2021 rental revenue which is materially in line with historical collection rates. Management will monitor rent collections and compassionately follow up with those accounts in arrears as the impact of the pandemic continues to weigh on the North American economy over the remainder of the year.

As at February 16, 2021, the REIT's collection of rental revenue during 2020 is summarized by region:

Region	Q1 2020	Q2 2020	Q3 2020	October 2020	November 2020	December 2020	% Rental Revenue
Canada	99.8%	99.8%	99.5%	99.4%	99.0%	99.0%	38.1%
U.S.	100.0%	99.7%	99.5%	99.0%	98.3%	98.0%	61.9%
Total	**99.9%**	**99.7%**	**99.5%**	**99.2%**	**98.6%**	**98.4%**	**100.0%**

Bad Debt Expense (Recovery)

The REIT utilizes the simplified approach to measure expected credit losses under IFRS 9, which requires the REIT to recognize a lifetime expected credit loss allowance on all receivables at each reporting date.

The details of bad debt expense (recovery) recorded in the consolidated statements of income within property operating costs for the three months and years ended December 31, 2020 and 2019 are provided below:

For the three months ended December 31 (in thousands of dollars)	2020	% of Revenue	2019	% of Revenue
Canada	$33	0.1%	($5)	0.0%
U.S.	762	2.0%	277	0.7%
Total	**$795**	**1.3%**	**$272**	**0.4%**

For the years ended December 31 (in thousands of dollars)	2020	% of Revenue	2019	% of Revenue
Canada	$292	0.3%	$71	0.1%
U.S.	1,792	1.2%	1,217	0.8%
Total	**$2,084**	**0.8%**	**$1,288**	**0.5%**

Rent Deferral Program and Rent Increases

The REIT implemented a rent deferral program for our residential tenants who are financially constrained due to the impact of COVID-19. The REIT is actively working with residents on a case-by-case basis on rent deferral arrangements and will also ensure pertinent and timely information regarding Government financial support programs is shared with tenants. As at February 16, 2021, approximately 0.9% of residential tenants have deferred payment plans. In addition, commencing with April's rental payment, the REIT waived the collection of rental increases and late fees for existing tenants up to and including August's rental payment.

Occupancy and Leasing

As at February 16, 2021, the REIT's occupancy in Canada and in the U.S. with the exception of a few properties directly impacted by university and local business closures remains stable as leasing agents work remotely and utilize online technology to continue leasing activity following the onset of social distancing guidelines. Generally speaking, current conditions including social distancing have reduced leasing traffic. In addition, management will closely monitor any impact Ontario's current state of emergency as well as the extension of the U.S. eviction moratorium may have on traffic and turnover levels in the coming months.

Liquidity

The REIT has liquidity of $120,700, comprised of approximately $27,300 in cash and $93,400 available under its revolving credit facility with Morguard Corporation. In addition, the REIT has no significant debt maturities until the third quarter of 2021 and the REIT has approximately $45,300 of unencumbered assets. The REIT has also narrowed down the scope of its capital expenditure program to ensure the availability of resources, allocating an amount that enables the REIT to maintain the structural and overall safety of the properties.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at December 31 (In thousands of dollars, except as noted otherwise)	2020	2019
Operational Information		
Number of properties	**43**	43
Total suites	**13,275**	13,277
Occupancy percentage - Canada	**94.9%**	98.8%
Occupancy percentage - U.S.	**92.2%**	94.5%
AMR - Canada (in actual dollars)	**$1,500**	$1,432
AMR - U.S. (in actual U.S. dollars)	**US$1,428**	US$1,409
Summary of Financial Information		
Gross book value	**$3,084,358**	$3,033,427
Indebtedness	**$1,320,708**	$1,337,229
Indebtedness to gross book value ratio	**42.8%**	44.1%
Weighted average mortgage interest rate(1)	**3.45%**	3.48%
Weighted average term to maturity on mortgages payable (years)	**4.8**	5.6
Exchange rates - United States dollar to Canadian dollar	**$1.27**	$1.30
Exchange rates - Canadian dollar to United States dollar	**$0.79**	$0.77

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

For the years ended December 31 (In thousands of dollars, except per Unit amounts)	2020	2019
Summary of Financial Information		
Interest coverage ratio	**2.32**	2.29
Indebtedness coverage ratio	**1.58**	1.60
Revenue from real estate properties	**$248,683**	$245,596
NOI	**$135,533**	$132,862
Proportionate NOI	**$137,965**	$128,338
Same Property Proportionate NOI	**$130,407**	$126,577
NOI margin - IFRS	**54.5%**	54.1%
NOI margin - Proportionate	**54.3%**	53.9%
Net income	**$166,805**	$80,128
FFO - basic	**$68,945**	$64,218
FFO - diluted	**$72,793**	$68,066
FFO per Unit - basic	**$1.23**	$1.22
FFO per Unit - diluted	**$1.20**	$1.19
Distributions per Unit	**$0.6996**	$0.6826
FFO payout ratio	**57.0%**	56.1%
Weighted average number of Units outstanding (in thousands):		
Basic(1)	**56,222**	52,766
Diluted(1) (2)	**60,455**	56,999
Average exchange rates - United States dollar to Canadian dollar	**$1.34**	$1.33
Average exchange rates - Canadian dollar to United States dollar	**$0.75**	$0.75

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

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

REAL ESTATE PROPERTIES

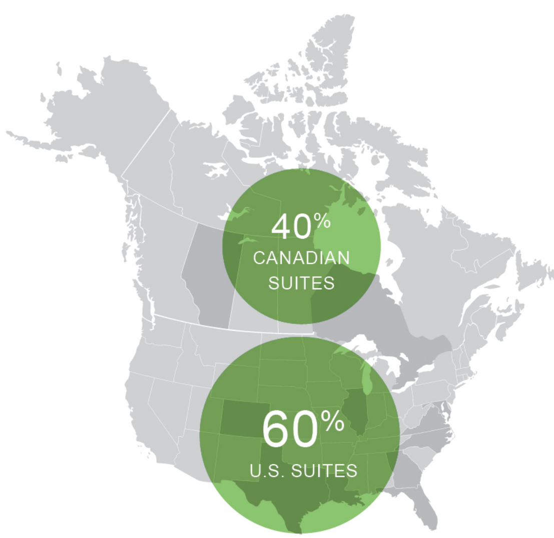
As at December 31, 2020, the REIT's multi-suite residential property portfolio consists of 16 Canadian properties and 27 U.S. properties, having a total of 13,275 residential suites. The properties are primarily located in urban centres and major suburban regions in Alberta, Ontario, Colorado, Texas, Louisiana, Illinois, Georgia, Florida, North Carolina, Virginia and Maryland.

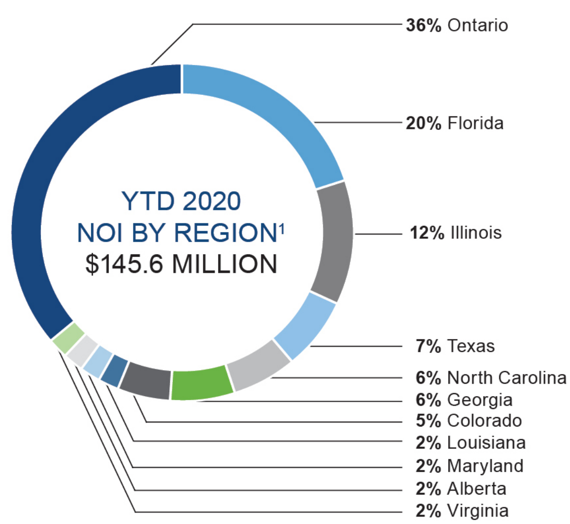
The following table details the regional distribution of the REIT's portfolio as at December 31, 2020:

Region (In thousands of dollars, except as otherwise noted)	Number of Properties	Total Suites[(1)]	% of the Portfolio (based on suites)	Fair Value of Real Estate Properties[(1)]
Canadian Properties				
Alberta	1	277	2.1%	$57,200
Ontario				
Mississauga	7	2,219	16.7%	732,500
Toronto	6	1,997	15.0%	415,050
Other[(2)]	2	842	6.4%	209,300
	16	**5,335**	**40.2%**	**$1,414,050**
U.S. Properties				
Colorado	2	454	3.4%	$114,843
Texas	3	1,021	7.7%	194,163
Louisiana[(3)]	3	393	3.0%	66,461
Illinois	2	1,205	9.1%	581,217
Georgia	3	814	6.1%	151,396
Florida	10	2,593	19.5%	503,321
North Carolina	2	864	6.5%	171,449
Virginia	1	104	0.8%	60,096
Maryland	1	492	3.7%	168,062
	27	**7,940**	**59.8%**	**$2,011,008**
Total	**43**	**13,275**	**100.0%**	**$3,425,058**

(1) Total suites and fair value of real estate properties include non-controlling interest; the REIT, on a proportionate basis, has ownership of12,255 suites. Fair value of real estate properties represents the sum of income producing properties ($2,941,241) and equity-accounted investment properties ($483,817) inclusive of non-controlling interest share.
(2) Other Ontario includes one property in each of Kitchener, Ontario and Ottawa, Ontario.
(3) Includes a redevelopment property in New Orleans, Louisiana, that was completed and commenced initial lease-up in October 2020.

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





1 Includes equity-accounted investments at ownership share

AVERAGE MONTHLY RENT AND OCCUPANCY BY REGION

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

Region	AMR/Suite at December 31, 2020	AMR/Suite at December 31, 2019	% Change	Occupancy at December 31, 2020	Occupancy at December 31, 2019
Canadian Properties (in Canadian dollars)					
Alberta	**$1,408**	$1,408	**0.0%**	**76.0%**	95.7%
Ontario					
Mississauga	**1,677**	1,586	**5.7%**	**96.0%**	99.2%
Toronto	**1,341**	1,287	**4.2%**	**97.0%**	98.9%
Other[1]	**1,438**	1,378	**4.4%**	**92.7%**	98.7%
Total Ontario	**1,505**	1,434	**5.0%**	**95.9%**	99.0%
Total Canada (in Canadian dollars)	**$1,500**	$1,432	**4.7%**	**94.9%**	98.8%
U.S. Properties (in U.S. dollars)					
Colorado	**$1,421**	$1,403	**1.3%**	**95.1%**	94.9%
Texas	**1,318**	1,308	**0.8%**	**94.9%**	93.3%
Louisiana	**1,241**	1,212	**2.4%**	**93.4%**	94.1%
Illinois	**2,471**	2,543	**(2.8%)**	**81.3%**	93.6%
Georgia	**1,298**	1,265	**2.6%**	**94.8%**	94.9%
Florida	**1,315**	1,279	**2.8%**	**96.5%**	95.1%
North Carolina	**1,119**	1,085	**3.1%**	**92.7%**	95.3%
Virginia	**2,124**	2,155	**(1.4%)**	**93.2%**	88.3%
Maryland	**1,896**	1,882	**0.7%**	**86.5%**	94.1%
U.S. Same Property	**1,428**	1,409	**1.3%**	**93.6%**	94.5%
Redevelopment[2]	**1,720**	—	**100.0%**	**6.2%**	—%
Total U.S. (in U.S. dollars)	**$1,428**	$1,409	**1.3%**	**92.2%**	94.5%
Total (in local currencies)	**$1,459**	$1,419	**2.8%**	**93.3%**	96.4%

(1) Other Ontario includes one property in each of Kitchener, Ontario and Ottawa, Ontario.
(2) Includes a redevelopment property in New Orleans, Louisiana, that was completed and commenced initial lease-up in October 2020.

CANADIAN PROPERTIES

As at December 31, 2020, AMR per suite in Canada increased by 4.7% compared to December 31, 2019, mainly due to rental rate increases in line with the Ontario guideline rate in 2020 of 2.2% (2019 - 1.8%), above guideline increases at several properties upon the completion of capital projects and rental rate increases on suite turnover. AMR at the REIT's single property in Edmonton, Alberta was consistent compared with the prior year as a high proportion of tenants pay rent at market coupled with higher vacancy due to the large student tenant base as university closures continue. During the period from April to August 2020, the REIT waived the collection of rental increases for existing tenants during the pandemic, which had a slight impact as a reduction of AMR at June 30, 2020.

Sequentially, AMR in Canada of $1,500 as at December 31, 2020, increased by 1.3% compared to $1,481 as at September 30, 2020, mainly due to the same reasons noted above.

The REIT continued to experience steady demand, particularly in Ontario, which has allowed the REIT to increase rents as suites turn over at below market rates. During the year ended December 31, 2020, the REIT's Canadian portfolio turned over 567 suites, or 10.6% of total suites located in Canada and achieved AMR growth of 17.4% on suite turnover. Overall, Canadian turnover is lower compared to 15.0% achieved during the year ended December 31, 2019, largely due to the impact COVID-19 had on disrupting normal traffic patterns as tenants were less willing to move.

As at December 31, 2020, occupancy in Canada was 94.9%, compared to 98.8% at December 31, 2019. Overall, occupancy in Canada declined due to continued lower leasing traffic resulting from social distancing restrictions and current economic conditions. As the number of move-outs outpaced move-ins and as social distancing guidelines continue to ease, we expect leasing traffic to increase. Occupancy in the GTA has been impacted by lower immigration levels, the increased number of suites on the market from existing and new supply and the closure of non-essential businesses.

The decrease in occupancy at the REIT's single property located in Edmonton, Alberta from 95.7% at December 31, 2019 to 76.0% at December 31, 2020, primarily reflects the high proportion of tenants who attend nearby universities which remain closed for in-person classes. In addition, Other Ontario occupancy decreased from 98.7% at December 31, 2019 to 92.7% at December 31, 2020, predominantly due to the REIT's property located in Ottawa, Ontario, which was impacted by the closure of universities for the same reasons noted above. The REIT has utilized rental concessions at certain properties in order to stabilize occupancy.

The 2021 Ontario rent freeze will impact rental increases as the annual guideline rental increase has been set at 0.0% in 2021 (2.2% for 2020). However, the REIT can apply for an above-guideline increase ("AGI") relating to eligible capital repairs and security services. Currently, the REIT has AGIs at seven Ontario properties providing additional rent increases for a twelve-month period commencing at various effective dates in 2020, ranging from 0.50% to 2.00% and five other pending applications that will provide AGIs into 2021. Although the rental market has softened, the REIT still has the ability to increase rents on turnover and through above guideline applications.

U.S. PROPERTIES

As at December 31, 2020, Same Property AMR per suite in the U.S. increased by 1.3% compared to December 31, 2019. The REIT had AMR growth in all U.S. regions, except for Virginia and Illinois, mainly attributable to decreased occupancy through 2020 from downward pressure on the market, due to COVID-19. Decreased occupancy compared to prior year has led to slower overall AMR growth and decreased rental rates coupled with an increase in targeted market concessions in a few regions. Strong performance in North Carolina, Florida, Colorado, Louisiana and Georgia led the portfolio through the end of 2020.

The REIT continues to utilize revenue management tools aimed at balancing rent growth, traffic and renewal exposure. As at December 31, 2020, that balance has been maintained through the slower winter season. Management aims to match expiring leases with new move-ins using multiple technologies, virtual leasing, contactless apartment tours and improved access. With few exceptions, the REIT has also maintained Same Property AMR growth over 2019 within most respective submarkets while it enjoyed strong occupancies. Though management believes supply challenges will continue, we expect demand to increase and these challenges to begin to subside in the spring and summer months of 2021.

As at December 31, 2020, Same Property occupancy in the U.S. was stable at 93.6% compared to 94.5% at December 31, 2019. The onset of COVID-19 and stay-at-home orders disrupted normal traffic patterns throughout the portfolio. Management's quick response to implementing new strategies including virtual leasing programs and other operational adjustments proved to stabilize the portfolio and, in many regions, improved leasing activities. The stable occupancy was mainly due to a focus on resident retention by staying connected with residents and softening renewal increases while working at each community to maintain high-quality communication and service levels. With few exceptions the REIT's U.S. residential assets continue to perform well. In addition, rent collections remained strong, exceeding 98% during the fourth quarter. Occupancy at the Marquee at Block 37 in Chicago, Illinois, was 72.8% at December 31, 2020 and continues to be impacted by COVID-19 shut downs and "work-from-home" requirements, currently reducing resident preferences to live in Chicago's loop. The Marquee at Block 37 held a number of furnished corporate leases targeted towards Chicago's theatre district, which is expected to reopen towards the second quarter of 2021. Management expects the decline in occupancy to be short term, as the vaccine continues to be administered in Chicago and across the country.

Sequentially, Same Property occupancy in the U.S. slightly increased to 93.6% compared to 93.3% as at September 30, 2020. In light of the COVID-19 impact, the increase in occupancy was due to higher resident retention throughout the majority of the portfolio, partly offset by the reasons discussed above, which impacted Illinois, Maryland and North Carolina.

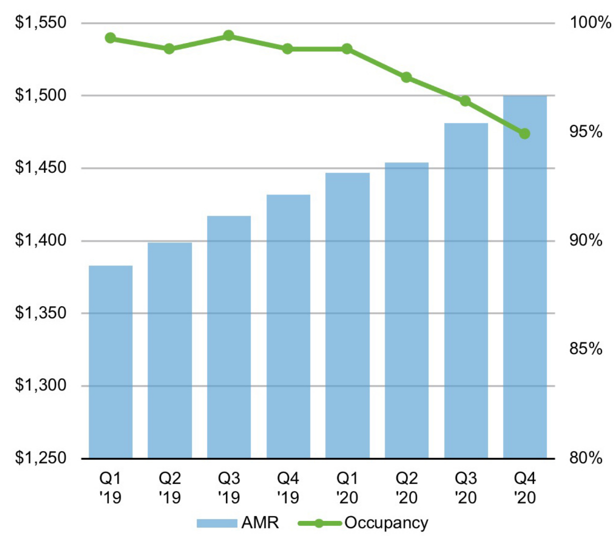
Generally, management has identified positive indicators in several markets that point to slow but steady improvements as the various municipalities continue to loosen COVID-19 restrictions. Because of this, we do believe the portfolio performance will remain stable as we enter 2021. Though COVID-19 continues to surge, the overall sentiment in the U.S. is one of optimism as a 2021 federal stimulus package is nearing fruition with the new administration. With its plan to vaccinate one hundred million Americans in the next 100 days, we expect more travel to open up and "work-from-home" arrangements to become less prevalent. With the stimulus will come additional Federal eviction moratorium requirements. Luckily, the impact of job loss and the necessity to evict has been minor across all the REIT's U.S. assets. In addition, it is also possible that Chicago's downtown core market will see some relief in late spring going into the busy summer leasing season.

Management will continue to monitor our immediate submarkets and will strategically adjust rents to maximize income while maintaining stable occupancy.

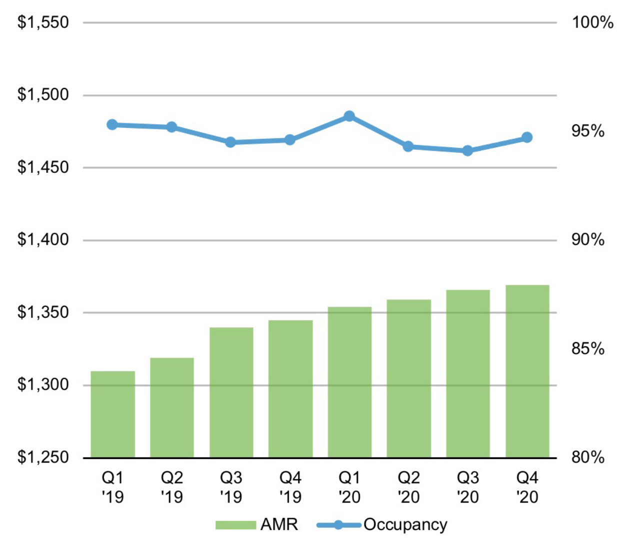
For the year ended December 31, 2020, the REIT's rental incentives amounted to $777 (2019 - $608), mainly at properties that were impacted by new supply. During 2020 and 2019, the use of rental incentives decreased compared to 2018, to reflect the portfolio's stable occupancy. Incentives were used on an as needed basis, limited to a few submarkets that were impacted by new supply and/or from reduced traffic due to COVID-19.

The following table details AMR (in actual dollars), stated in local currency, and occupancy of the REIT's Same Property portfolio at each quarter end since March 31, 2019:

CANADA



U.S.



PART III

REVIEW OF OPERATIONAL RESULTS

The REIT's operational results are summarized below:

For the years ended December 31 (In thousands of dollars)	2020	2019
Revenue from real estate properties	**$248,683**	$245,596
Property operating expenses		
Property operating costs	**(63,762)**	(62,898)
Realty taxes	**(31,770)**	(31,860)
Utilities	**(17,618)**	(17,976)
Net operating income	**135,533**	132,862
Other expenses (income)		
Interest expense	**62,111**	65,812
Trust expenses	**15,237**	14,343
Equity loss (income) from investments	**9,869**	(97)
Foreign exchange loss	**220**	854
Other expense (income)	**(431)**	(1,505)
Income before fair value changes and income taxes	**48,527**	53,455
Fair value gain on real estate properties, net	**72,238**	55,977
Fair value gain (loss) on Class B LP Units	**43,747**	(23,079)
Income before income taxes	**164,512**	86,353
Provision for (recovery of) income taxes		
Current	**131**	132
Deferred	**(2,424)**	6,093
	(2,293)	6,225
Net income for the year	**$166,805**	$80,128
Net income (loss) attributable to:		
Unitholders	**$175,216**	$76,815
Non-controlling interest	**(8,411)**	3,313
	$166,805	$80,128

REVENUE FROM REAL ESTATE PROPERTIES

Higher rental revenue for the year ended December 31, 2020, is mainly due to rental rate increases and foreign exchange fluctuations, partly offset by higher vacancy, and dispositions during the first half of 2019.

NET OPERATING INCOME

The following tables provide the NOI and Proportionate NOI for the REIT's consolidated Canadian and U.S. operations. Same Property NOI for the year ended December 31, 2020, measures the operating performance for properties owned by the REIT continuously for the current and comparable reporting period and does not take into account the impact of the operating performance of property acquisitions and dispositions as well as development properties until reaching stabilized occupancy.

Same Property results for the year ended December 31, 2020, measures the operating performance for properties owned and have reached stabilization by the REIT continuously since January 1, 2019, and excludes the following properties: i) five properties in Louisiana sold during the first half of 2019; ii) 1643 Josephine Street, New Orleans, Louisiana, a redevelopment property acquired on April 5, 2018, which commenced initial lease-up in October 2020; iii) the acquisition of partial interests in three properties controlled by the REIT located in Mississauga, Ontario, on May 22, 2019; and iv) the acquisition of a 50% interest in Marquee at Block 37, located in Chicago, Illinois, on December 9, 2019.

Same Property and Same Property Proportionate results for the year ended December 31, 2020, represent 11,979 and 11,715 residential suites, respectively.

The following tables present components of revenue from real estate properties (an IFRS measure) in three categories: i) gross rental revenue (before vacancy and ancillary revenue); ii) vacancy; and iii) ancillary revenue. The presentation of revenue from real estate properties in these three categories represent a non-IFRS measure and is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's operating performance that provides a more comprehensive understanding of revenue form real estate properties.

Net Operating Income

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

For the years ended December 31 (In thousands of dollars)	2020 NOI	2020 Proportionate NOI	2019 NOI	2019 Proportionate NOI
Revenue from properties				
Same Property				
Gross rental revenue (before vacancy and ancillary revenue)	**$240,767**	**$234,354**	$231,577	$225,397
Vacancy	**(12,349)**	**(12,147)**	(8,898)	(9,049)
Ancillary	**18,614**	**17,612**	19,214	17,867
Same Property	**247,032**	**239,819**	241,893	234,215
Acquisitions / Dispositions	**1,651**	**14,096**	3,703	3,821
Total revenue from properties	**248,683**	**253,915**	245,596	238,036
Property operating expenses				
Same Property				
Operating costs	**63,387**	**61,725**	61,566	60,135
Realty taxes	**31,544**	**30,328**	31,166	29,840
Utilities	**17,458**	**17,359**	17,654	17,663
Same Property	**112,389**	**109,412**	110,386	107,638
Acquisitions / Dispositions	**761**	**6,538**	2,348	2,060
Total property operating expenses	**113,150**	**115,950**	112,734	109,698
NOI				
Total Same Property	**134,643**	**130,407**	131,507	126,577
Acquisitions / Dispositions	**890**	**7,558**	1,355	1,761
Total NOI	**$135,533**	**$137,965**	$132,862	$128,338
NOI margin	**54.5%**	**54.3%**	54.1%	53.9%

For the year ended December 31, 2020, NOI from the REIT's properties increased by $2,671 (or 2.0%) to $135,533, compared to $132,862 in 2019. The increase in NOI is due to an increase in Same Property NOI of $3,136 (or 2.4%) and a net decrease from acquisition and disposition of properties of $465. The Same Property increase of $3,136 is due to an increase in Canada of $1,619 (or 3.1%), an increase in the U.S. of US$471 (or 0.8%) and the change in foreign exchange rate which increased NOI by $1,046.

For the year ended December 31, 2020, Proportionate NOI from the REIT's properties increased by $9,627 (or 7.5%) to $137,965, compared to $128,338 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $3,830 (or 3.0%) and a net increase from acquisition and disposition of properties of $5,797. The Same Property increase of $3,830 is due to an increase in Canada of $1,611 (or 3.1%), an increase in the U.S. of US$1,024 (or 1.8%) and the change in foreign exchange rate which increased Proportionate NOI by $1,195.

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

For the years ended December 31 (In thousands of dollars)	2020 NOI	2020 Proportionate NOI	2019 NOI	2019 Proportionate NOI
Same Property NOI - Canada (local currency)	**$53,568**	**$53,253**	$51,949	$51,642
Same Property NOI - U.S. (local currency)	**60,428**	**57,499**	59,957	56,475
Acquisitions / Dispositions (local currency)	**917**	**5,873**	1,259	1,468
Exchange amount to Canadian dollars	**20,620**	**21,340**	19,697	18,753
Total NOI	**$135,533**	**$137,965**	$132,862	$128,338

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

For the years ended December 31 (In thousands of dollars)	2020 NOI	2020 Proportionate NOI	2019 NOI	2019 Proportionate NOI
Revenue from properties				
Same Property				
Gross rental revenue (before vacancy and ancillary revenue)	**$91,874**	**$91,374**	$87,946	$87,515
Vacancy	**(3,432)**	**(3,416)**	(1,104)	(1,101)
Ancillary[(1)]	**4,676**	**4,649**	4,903	4,833
Same Property	**93,118**	**92,607**	91,745	91,247
Acquisitions	**1,628**	**1,628**	1,587	936
Revenue from properties	**94,746**	**94,235**	93,332	92,183
Property operating expenses				
Same Property				
Operating costs	**19,293**	**19,201**	19,007	18,918
Realty taxes	**9,640**	**9,579**	9,824	9,767
Utilities	**10,617**	**10,574**	10,965	10,920
Same Property	**39,550**	**39,354**	39,796	39,605
Acquisitions	**620**	**620**	613	365
Total property operating expenses	**40,170**	**39,974**	40,409	39,970
NOI				
Same Property	**53,568**	**53,253**	51,949	51,642
Acquisitions	**1,008**	**1,008**	974	571
Total NOI	**$54,576**	**$54,261**	$52,923	$52,213
NOI margin	**57.6%**	**57.6%**	56.7%	56.6%

(1) Ancillary revenue mainly comprises parking, laundry and cable income; amortized rent concessions and storage fees. Ancillary revenue also includes commercial revenue, net of vacancy cable income.

For the year ended December 31, 2020, NOI from the Canadian properties increased by $1,653 (or 3.1%) to $54,576, compared to $52,923 in 2019. The increase in NOI is primarily due to an increase in Same Property NOI of $1,619 (or 3.1%). The Same Property increase was due to an increase in revenue of $1,373 (or 1.5%), from higher gross rental revenue (4.5%) resulting from an increase in AMR, partially offset by increased vacancy and concessions given to existing tenants for the collection of rental increases during the pandemic through August 2020. The increase in vacancy is due to lower leasing traffic resulting from social distancing restrictions and current economic conditions, higher turnover from student tenant move-outs and fewer move-ins, as universities continue to be closed or are offering e-learning-only options. In addition, a decrease in operating expenses of $246 (or 0.6%) was due to lower realty taxes of $184 and a decrease in utilities of $348, partly offset by an increase in operating costs of $286. The decrease in utilities of $348 was mainly due to lower gas and water consumption resulting from the positive impact of the REIT's energy initiatives and submetering program and a warmer spring compared to 2019, which was partially offset by higher hydro consumption generally related to the increased number of tenants who stayed indoors as part of social distancing guidelines. In addition, hydro rates increased as part of the Province of Ontario's Ontario Electricity Rebate ("OER") program, which was offset by a higher rebate under the program. The decrease in realty taxes of $184 is mainly due to a successful tax appeal at one property in the amount of $493, net of associated consulting fees, which was partially offset by higher realty tax expense across the portfolio due to increased assessed market values. The increase in operating costs is due to insurance expense from higher premiums, bad debt expense and additional cleaning costs, which was offset by lower repairs and maintenance expenditures from reduced non-essential spending and in-suite repairs.

For the year ended December 31, 2020, Proportionate NOI from the Canadian properties increased by $2,048 (or 3.9%) to $54,261, compared to $52,213 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of $1,611 (or 3.1%) and an increase of $437 from the acquisition of partial interests in three properties controlled by the REIT in May 2019. The Same Property increase was due to an increase in revenue of $1,360 (or 1.5%), from higher gross rental revenue (4.4%) resulting from an increase in AMR, partially offset by increased vacancy and concessions given for the same reasons described above. In addition, a decrease in operating expenses of $251 (or 0.6%) was due to lower realty taxes of $188 and utilities of $346, partly offset by an increase in operating costs of $283 for the same reasons described above.

The REIT's Canadian NOI margin and Proportionate NOI margin were 57.6% and 57.6%, respectively, for the year ended December 31, 2020, compared to 56.7% and 56.6%, respectively, for the year ended December 31, 2019. Overall, as noted above, the increase in revenue primarily due to higher AMR, net of increased vacancy, and a relatively small increase/decrease in operating expenses contributed to the increase in NOI margin.

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

For the years ended December 31 (In thousands of U.S. dollars, unless otherwise stated)	2020 NOI	2020 Proportionate NOI	2019 NOI	2019 Proportionate NOI
Revenue from properties				
Same Property				
Gross rental revenue (before vacancy and ancillary revenue)	**$111,021**	**$106,614**	$108,252	$103,920
Vacancy	**(6,652)**	**(6,517)**	(5,877)	(5,993)
Ancillary[(1)]	**10,396**	**9,665**	10,790	9,828
Same Property	**114,765**	**109,762**	113,165	107,755
Acquisitions / Dispositions	**18**	**9,280**	1,592	2,176
Total revenue from properties	**114,783**	**119,042**	114,757	109,931
Property operating expenses				
Same Property				
Operating costs	**32,928**	**31,755**	32,081	31,069
Realty taxes	**16,311**	**15,451**	16,084	15,127
Utilities	**5,098**	**5,057**	5,043	5,084
Same Property	**54,337**	**52,263**	53,208	51,280
Acquisitions / Dispositions	**109**	**4,415**	1,307	1,279
Total property operating expenses	**54,446**	**56,678**	54,515	52,559
NOI (in U.S. dollars)				
Same Property	**60,428**	**57,499**	59,957	56,475
Acquisitions / Dispositions	**(91)**	**4,865**	285	897
Total NOI (in U.S. dollars)	**60,337**	**62,364**	60,242	57,372
Exchange amount to Canadian dollars	**20,620**	**21,340**	19,697	18,753
NOI (in Canadian dollars)	**$80,957**	**$83,704**	$79,939	$76,125
NOI margin (in U.S. dollars)	**52.6%**	**52.4%**	52.5%	52.2%

(1) Ancillary revenue mainly comprises parking, laundry and cable income; amortized rent concessions; storage fees; utility chargebacks and other fee income associated with moving in or out (such as application fees and cleaning fees), late rental payment fees from residents under the terms of the lease arrangements. Ancillary revenue also includes commercial revenue, net of vacancy.

For the year ended December 31, 2020, NOI from the U.S. properties increased by $1,018 (or 1.3%) to $80,957, compared to $79,939 in 2019. The increase in NOI is due to an increase in Same Property NOI of US$471 (or 0.8%), a decrease in NOI of US$376 from the disposition of five properties in Louisiana and the REIT's redevelopment property in Louisiana and the change in foreign exchange rate which increased NOI by $923. The Same Property increase was due to an increase in revenue of US$1,600 (or 1.4%) from higher gross rental revenue (2.6%) resulting from an increase in AMR, partially offset by increased vacancy, concessions given on late fees and lower parking and guest suite income primarily at the REIT's property in Chicago and an increase in operating expenses of US$1,129 (or 2.1%). The increase in operating expenses is due to higher operating costs of US$847, realty taxes of US$227 and utilities of US$55. The increase in operating expenses is mainly due to an increase in insurance expense from higher premiums, bad debt expense and additional cleaning costs, partially offset by lower repairs and maintenance from reduced non-essential common area spending and in-suite repairs. The increase in realty taxes is due to an increase in the assessed market value at certain properties. The increase in utilities is due to higher water and hydro consumption generally related to the increased number of tenants who stayed indoors as part of social distancing guidelines.

For the year ended December 31, 2020, Proportionate NOI from the U.S. properties increased by $7,579 (or 10.0%) to $83,704, compared to $76,125 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of US$1,024 (or 1.8%), an increase in NOI of US$3,968 from the acquisition of Marquee at Block 37 in December 2019, net of a decrease in NOI of US$376 from the disposition of five properties in Louisiana and the REIT's redevelopment property in Louisiana, and the change in foreign exchange rate which increased NOI by $2,587. The Same Property increase was mainly due to an increase in revenue of US$2,007 (or 1.9%), from higher gross rental revenue (2.6%) resulting from an increase in AMR, partially offset by increased vacancy, concessions given on late fees and lower parking and guest suite income primarily at the REIT's property in Chicago and an increase in operating expenses of US$983 (or 1.9%). The increase in operating expenses is due to higher operating costs of US$686 for the same reasons described above, realty taxes of US$324 due to an increase in the assessed market value at certain properties, partially offset by lower utilities of US$27.

The REIT's U.S. NOI margin and Proportionate NOI margin were 52.6% and 52.4%, respectively, for the year ended December 31, 2020, compared to 52.5% and 52.2%, respectively, for the year ended December 31, 2019. The NOI margin and Proportionate NOI margin were both impacted by a Same Property increase in revenue and in operating expenses; as well the acquisition of Marquee at Block 37 net of the disposition of the five properties had a positive impact.

INTEREST EXPENSE

Interest expense consists of the following:

For the years ended December 31 (In thousands of dollars)	2020	2019
Interest on mortgages	**$40,707**	$41,009
Distributions on Class C LP Units - interest	**3,108**	3,211
Interest on mortgages and Retained Debt	**43,815**	44,220
Distributions on Class C LP Units - tax payment	**575**	566
Interest on the convertible debentures	**3,848**	3,848
Interest on lease liability	**458**	413
Amortization of deferred financing costs	**2,599**	2,819
Amortization of deferred financing costs on the convertible debentures	**662**	626
Fair value loss (gain) on conversion option on the convertible debentures	**(1,895)**	1,003
Loss on extinguishment of mortgages payable	**—**	561
Interest expense before distributions on Class B LP Units	**50,062**	54,056
Distributions on Class B LP Units	**12,049**	11,756
	$62,111	$65,812

Total interest expense decreased by $3,701 during the year ended December 31, 2020, to $62,111, compared to $65,812 in 2019. The decrease is predominantly due to a non-cash decrease in fair value on the convertible debentures' conversion option of $2,898, a decrease in interest on mortgages and Retained Debt of $405, a decrease in amortization of deferred financing costs of $220 and a decrease of $561 from a loss on extinguishment of mortgages payable associated with the disposal of properties during 2019, partially offset by an increase of $293 in distribution of Class B LP Units resulting from an increase to monthly distributions during the fourth quarter of 2019. The weakening of the Canadian dollar decreased interest expense on U.S. mortgages by $320 excluding the impact of dispositions.

Morguard retained the mortgages and deferred financing costs (the "Retained Debt"), on four Canadian properties that were sold to the REIT. Morguard remains responsible for the interest and principal payments on the Retained Debt, and the Retained Debt is secured by charges on the four properties. In consideration of the Retained Debt, Morguard received Class C LP Units on which distribution payments are made in an amount sufficient to permit Morguard to satisfy amounts payable with respect to principal and interest of the Retained Debt and the tax payment that is attributable to any distributions on the Class C LP Units. The portion of the distributions that represent the interest and tax components associated with the Retained Debt that had been classified as interest expense for the year ended December 31, 2020, amounted to $3,683 (2019 - $3,777).

Under IFRS, the Class B LP Units are classified as financial liabilities, and the corresponding distributions paid to the Unitholders are classified as interest expense. The REIT believes these distribution payments do not represent financing charges because these amounts are payable only if the REIT declares distributions and only for the amount of any distributions declared, both of which are at the discretion of the Board of Trustees as outlined in the Declaration of Trust. The total distributions paid and accrued to Class B LP Unitholders for the year ended December 31, 2020, amounted to $12,049 (2019 - $11,756).

TRUST EXPENSES

Trust expenses consist of the following:

For the years ended December 31 (In thousands of dollars)	2020	2019
Asset management fees and distributions	**$12,536**	$11,908
Professional fees	**1,096**	1,093
Public company expenses	**703**	796
Other	**902**	546
	$15,237	$14,343

Trust expenses increased by $894 during the year ended December 31, 2020, to $15,237, compared to $14,343 in 2019. The increase is predominantly due to higher asset management fees and distributions, resulting from an increase in gross book value and growth in FFO (see Part VI, “Related Party Transactions”).

EQUITY INCOME (LOSS) FROM INVESTMENTS

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

Equity loss from investments for the year ended December 31, 2020, was $9,869 and included a non-cash fair value loss on income producing properties of $13,819, which was a result of a decrease in stabilized NOI assumptions. For the year ended December 31, 2019, equity income from investment was $97 and included a non-cash fair value loss of $1,385, which was mainly due to acquisition costs in connection with the Marquee at Block 37 that were initially capitalized.

FOREIGN EXCHANGE LOSS

IFRS requires monetary assets and liabilities denominated in foreign currencies to be translated into Canadian dollars at the exchange rate in effect at the reporting date, and any gain or loss is recognized in the consolidated statements of income. The REIT’s foreign exchange loss for year ended December 31, 2020, amounted to $220 (2019 - $854), which is mainly the result of the fluctuation of the Canadian dollar against the United States dollar as at December 31, 2020, when compared to December 31, 2019.

OTHER EXPENSE (INCOME)

Other income mainly represents interest income earned from the Morguard Facility on advances made to Morguard and other expenses. Other income during the year ended December 31, 2020, amounted to $431 (2019 - $1,505). The decrease in other income of $1,074 for the year ended December 31, 2020 was predominantly due to lower interest earned on the Morguard Facility.

FAIR VALUE GAIN ON REAL ESTATE PROPERTIES, NET

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

For the year ended December 31, 2020, the REIT recognized a net fair value gain of $72,238 (2019 - $55,977). The fair value gain comprises $126,112 at the REIT’s Canadian properties primarily as a result of a 25 basis point decrease in capitalization rates at properties located in the GTA as well as an increase in stabilized NOI, and a fair value loss of $53,874 at the U.S. properties as a result of a decrease in stabilized NOI.

FAIR VALUE GAIN (LOSS) ON CLASS B LP UNITS

The Class B LP Units are classified as financial liabilities in accordance with IFRS and, as a result, are recorded at their fair value at each reporting date. As at December 31, 2020, 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 $274,708 (2019 - $318,455) (see Part V, “Capital Structure and Debt Profile”).

The REIT recognized a fair value gain for the year ended December 31, 2020 of $43,747 (2019 - loss of $23,079) resulting from a $2.54 Unit price decrease since December 31, 2019, mainly due to the impact the global health crisis had on the stock market during 2020.

INCOME TAXES

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

Certain of the REIT's operations or a portion thereof are conducted through its taxable U.S. subsidiaries, which are subject to U.S. federal and state corporate income taxes.
For the year ended December 31, 2020, the REIT recorded current tax expense of $131 (2019 - $132).

For the year ended December 31, 2020, the REIT has recorded deferred tax recovery for U.S. federal and state taxes associated with the U.S. subsidiaries of $2,424 (2019 - expense of $6,093). The deferred tax recovery is mainly due to a fair value decrease related to U.S. properties.

The REIT’s provision for income taxes consists of the following:

For the years ended December 31 (In thousands of dollars)	2020	2019
Current	**$131**	$132
Deferred	**(2,424)**	6,093
Provision for income taxes	**($2,293)**	$6,225

As at December 31, 2020, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$34,067 (2019 - US$29,234) 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, 2020, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$15,256 (2019 - US$5,782) of which deferred tax assets were recognized. The net operating losses can be carried forward indefinitely.

As at December 31, 2020, the REIT’s U.S. subsidiaries have a total of US$2,201 (2019 - US$9,206) of unutilized interest expense deductions on which deferred tax assets were recognized.

FUNDS FROM OPERATIONS

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

	Three months ended December 31		Year ended December 31	
(In thousands of dollars, except per Unit amounts)	2020	2019	2020	2019
Net income for the period attributable to Unitholders	**$7,237**	$34,576	**$175,216**	$76,815
Add/(deduct):				
Realty taxes accounted for under IFRIC 21(1)	**(5,955)**	(5,257)	**—**	265
Fair value loss (gain) on conversion option on the convertible debentures	**767**	(2,380)	**(1,895)**	1,003
Distributions on Class B LP Units recorded as interest expense(2)	**3,012**	2,983	**12,049**	11,756
Foreign exchange loss	**737**	368	**220**	854
Fair value loss (gain) on real estate properties, net(3)	**10,447**	15,484	**(58,419)**	(54,592)
Non-controlling interests' share of fair value loss on real estate properties	**(11,688)**	(306)	**(12,055)**	(1,055)
Fair value loss (gain) on Class B LP Units	**24,973**	(23,423)	**(43,747)**	23,079
Deferred income tax provision (recovery)	**(14,101)**	(4,918)	**(2,424)**	6,093
FFO - basic	**$15,429**	$17,127	**$68,945**	$64,218
Interest expense on the convertible debentures	**970**	970	**3,848**	3,848
FFO - diluted	**$16,399**	$18,097	**$72,793**	$68,066
FFO per Unit - basic	**$0.27**	$0.30	**$1.23**	$1.22
FFO per Unit - diluted	**$0.27**	$0.30	**$1.20**	$1.19
Weighted average number of Units outstanding (in thousands):				
Basic(4)	**56,238**	56,199	**56,222**	52,766
Diluted(4) (5)	**60,471**	60,432	**60,455**	56,999

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

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

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

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

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

Basic FFO for the three months ended December 31, 2020, decreased by $1,698 (or 9.9%) to $15,429 ($0.27 per Unit), compared to $17,127 ($0.30 per Unit) in 2019. The decrease is mainly due to a decrease in other income of $1,076, primarily from lower interest income earned on the Morguard Facility, lower Proportionate NOI of $296 and a decrease in trust expenses of $44 (calculated on a Proportionate Basis), partially offset by an increase in interest expense of $370 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures).

Basic FFO per Unit for the three months ended December 31, 2020, decreased by $0.03 to $0.27 per Unit, compared to $0.30 per Unit in 2019 due to the following factors:

i) a decrease on a Same Property Proportionate Basis predominantly due to a decrease in NOI and lower Morguard Facility interest income earned, had a $0.02 per Unit negative impact; and
ii) the impact of lower interest income earned on proceeds advanced on the Morguard Facility from the issuance of Units on August 28, 2019, net of the partial use of proceeds and additional FFO generated from the acquisition of Marquee at Block 37 on December 9, 2019, had a $0.01 per Unit negative impact.

Basic FFO for the year ended December 31, 2020, increased by $4,727 (or 7.4%) to $68,945 ($1.23 per Unit), compared to $64,218 ($1.22 per Unit) in 2019. The increase is mainly due to higher Proportionate NOI of $9,627, partially offset by an increase in interest expense of $2,483 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures), an increase in trust expenses of $1,344 (calculated on a Proportionate Basis) and a decrease in other income of $1,074.

Basic FFO per Unit for the year ended December 31, 2020, increased by $0.01 to $1.23 per Unit, compared to $1.22 per Unit in 2019 due to the following factors:

i) an increase on a Same Property Proportionate Basis predominantly due to an increase in NOI and a decrease in interest expense, partially offset by higher trust expenses and lower Morguard Facility interest income earned, had a $0.045 per Unit positive impact, of which a successful property tax appeal, net of consulting fees contributed $0.01 per Unit;
ii) the dilutive impact from the issuance of Units on August 28, 2019, offset by interest income earned on proceeds advanced on the Morguard Facility, net of the partial use of proceeds and additional FFO generated from the acquisition of Marquee at Block 37 on December 9, 2019, had a $0.045 per Unit negative impact; and
iii) the change in the foreign exchange rate had a $0.01 per Unit positive impact.

For the year ended December 31, 2020, the disposal of five Louisiana properties during the first half of 2019 had a $nil per Unit impact as the decrease in FFO generated from the properties disposed of was offset by the extinguishment of mortgages payable.

DISTRIBUTIONS

The Trustees have discretion with respect to the timing and amounts of distributions. For the year ended December 31, 2020, total distributions amounted to $39,334 (2019 - $36,283).

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

For the years ended December 31 (In thousands of dollars)	**2020** **Units**	**Class B LP Units**	**Total**	2019 Units	Class B LP Units	Total
Distributions paid and declared	**$26,660**	**$12,049**	**$38,709**	$23,964	$11,756	$35,720
Distributions – DRIP	**625**	**—**	**625**	563	—	563
Total	**$27,285**	**$12,049**	**$39,334**	$24,527	$11,756	$36,283

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

For the years ended December 31 (In thousands of dollars)	**2020**	2019	2018
Net income	**$166,805**	$80,128	$174,710
Cash provided by operating activities	**50,128**	62,483	59,947
Distributions - Units(1)	**$27,285**	$24,527	$22,355
Excess of net income over distributions	**$139,520**	$55,601	$152,355
Excess of cash provided by operating activities over distributions	**$22,843**	$37,956	$37,592

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

Net income for the year ended December 31, 2020, includes a net income of $108,540 of non-cash components relating to a fair value gain on real estate properties, fair value gain on Class B LP Units, equity loss from investments and deferred taxes. Net income exceeded distributions when removing the impact of these non-cash items.

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

PART IV

BALANCE SHEET ANALYSIS

REAL ESTATE PROPERTIES

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

As at December 31 (In thousands of Canadian dollars, unless otherwise stated)	2020	2019
Canadian Properties		
Alberta	**$57,200**	$59,700
Ontario	**1,356,850**	1,216,920
Total Canadian Properties	**1,414,050**	1,276,620
U.S. Properties (in U.S. dollars)		
Colorado	**90,200**	94,300
Texas	**152,500**	158,700
Louisiana	**52,200**	32,000
Illinois	**208,500**	228,100
Georgia	**118,910**	124,340
Florida	**395,320**	396,450
North Carolina	**134,660**	129,240
Virginia	**47,200**	48,200
	1,199,490	1,211,330
Property under development	**—**	17,526
Total U.S. Properties (in U.S. dollars)	**1,199,490**	1,228,856
Exchange amount to Canadian dollars	**327,701**	367,182
Total U.S. Properties (in Canadian dollars)	**1,527,191**	1,596,038
Total real estate properties	**$2,941,241**	$2,872,658

The value of real estate properties increased by $68,583 as at December 31, 2020, to $2,941,241, compared to $2,872,658 at December 31, 2019. The increase is mainly the result of the following:

- A net fair value gain on real estate properties of $72,238;
- Capitalization of property enhancements and development expenditures of $28,064; and
- A decrease of $31,538 due to the change in U.S. dollar foreign exchange rate.

APPRAISAL CAPITALIZATION RATES

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

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

As at December 31, 2020, and 2019, the REIT had all its portfolio appraised by Morguard's appraisal division. In addition, the REIT's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

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

As at December 31, 2020, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 3.8% to 6.8% (2019 - 4.0% to 6.8%) applied to a stabilized net operating income of $132,725 (2019 - $133,706), resulting in an overall weighted average capitalization rate of 4.5% (2019 - 4.7%).

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

	December 31, 2020					December 31, 2019				
	Occupancy		Capitalization Rates			Occupancy		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Canada										
Alberta	**96.0%**	**96.0%**	**5.0%**	**5.0%**	**5.0%**	96.0%	96.0%	5.0%	5.0%	5.0%
Ontario	**97.0%**	**96.0%**	**4.5%**	**3.8%**	**3.9%**	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%	95.0%	5.3%	5.0%	5.0%
Louisiana	**95.0%**	**95.0%**	**6.8%**	**5.5%**	**6.0%**	95.0%	95.0%	6.8%	5.5%	6.0%
Illinois(1)	**95.0%**	**93.0%**	**4.8%**	**4.5%**	**4.6%**	95.0%	95.0%	4.8%	4.5%	4.6%
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%**	96.0%	93.5%	6.5%	4.8%	5.5%
North Carolina	**94.0%**	**94.0%**	**5.3%**	**5.0%**	**5.1%**	94.0%	94.0%	5.3%	5.0%	5.1%
Virginia	**95.0%**	**95.0%**	**4.8%**	**4.8%**	**4.8%**	95.0%	95.0%	4.8%	4.8%	4.8%
Maryland(1)	**95.0%**	**95.0%**	**4.5%**	**4.5%**	**4.5%**	95.0%	95.0%	4.5%	4.5%	4.5%

(1) Includes equity-accounted investments.

Fair values are most sensitive to changes in capitalization rates and stabilized net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points (assuming no change in stabilized net operating income), the value of the income producing properties as at December 31, 2020, would decrease by $154,512 or increase by $173,015, respectively.

PROPERTY CAPITAL INVESTMENTS

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

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

During 2020, property capital improvements were impacted by the COVID-19 pandemic due to physical distancing restrictions limiting access to the building and tenant suites. Following appropriate physical distancing protocol, the REIT limited capital expenditures to exterior work and prioritized work to maintain the structural and overall safety of the properties.

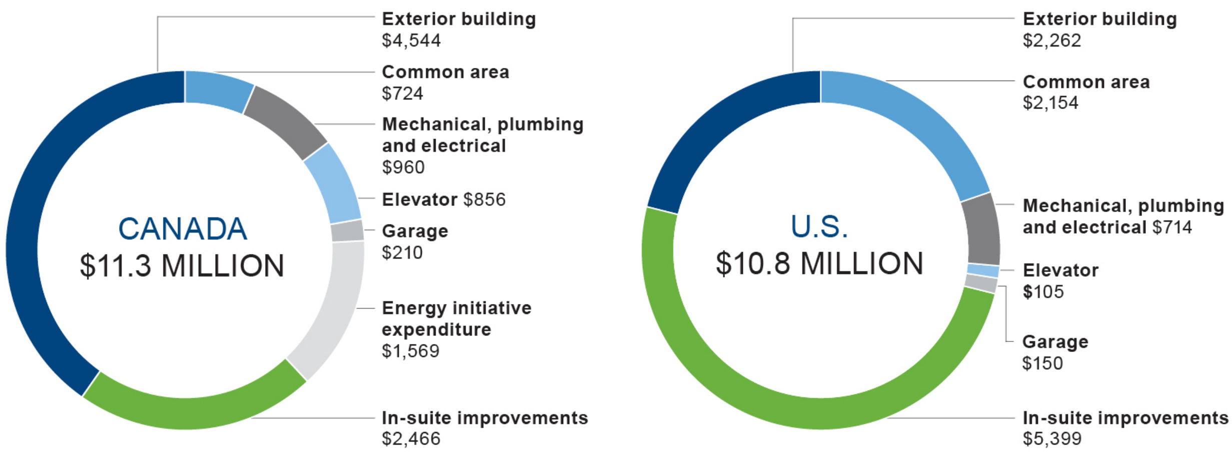
The following table provides additional details on total capital expenditures over the past three years:

For the years ended December 31 (In thousands of dollars)	**2020**	2019	2018
Common area	**$2,878**	$6,389	$3,721
Mechanical, plumbing and electrical	**1,674**	3,959	2,083
Exterior building	**6,806**	4,782	4,772
Garage	**360**	752	1,471
Elevator	**961**	105	42
Energy initiative expenditure	**1,569**	3,044	5,321
In-suite improvements	**7,865**	11,597	11,540
Total capital expenditures	**$22,113**	$30,628	$28,950

Capital Expenditures by Region

The following details total capital expenditures by region:

For the year ended December 31, 2020
(In thousands of dollars)



During the year ended December 31, 2020, the REIT's total capital expenditures amounted to $22,113 (or $1,848 per suite), compared to $30,628 (or $2,528 per suite) during 2019. The REIT's revenue enhancing capital expenditures were mainly comprised of in-suite improvements and energy initiative upgrades, the REIT also benefited from common area and exterior building projects which enhance the overall appeal of the properties.

In-suite renovations at properties where solid rental demand coupled with strong market fundamentals allow for above-market rent increases and an attractive return on the capital invested. Across the portfolio, during 2020 in-suite improvements included upgrades such as new kitchen countertops and appliances and the replacement of carpet with a more durable plank flooring.

The REIT continued capital expenditures on energy efficiency initiatives across the portfolio, which included boiler replacements and building automation systems. Common area capital expenditure included enhancing amenity areas such as courtyards and other outdoor/indoor amenity spaces as well as hallway and corridors completed at several properties. Sustaining capital included several projects such as balcony, garage, roof, fencing, sidewalk and driveways as well as landscaping upgrades which were completed across multiple properties. Additionally, several properties underwent exterior renovation projects in 2020 that enhance the overall curb appeal.

PROPERTY UNDER DEVELOPMENT

During October 2020, the REIT received its partial certificate of occupancy for its newly appointed Class A mid-rise redevelopment property, 1643 Josephine Street, New Orleans, Louisiana. The asset is located just off St. Charles Avenue in the renowned Garden District neighbourhood and boasts first class amenities including: condo quality finishes, in-suite gigabit fibre optic network, smart thermostats, luxurious closets and upgraded appliances as well as a second floor private amenity deck with outdoor pool/courtyard access, fitness centre and clubroom. The repositioned asset further improves the overall quality of the portfolio and is located within close proximity to The Georgian Apartments, offering management a platform for operational synergies. Due to COVID-19 social distancing requirements, virtual pre-leasing has begun with first occupancies taking place in late-October. The completion of the remaining floors will follow in succession and are expected to be completed during the first quarter of 2021. Management expects the ongoing COVID-19 pandemic will contribute to a slower pace of initial lease-up. Though the project has been delayed, management is pleased with the final product and is confident of the property’s long-term success. More information about the property can be found at https://www.1643josephine.com.


Exterior artist rendering


Kitchen


Living room

EQUITY-ACCOUNTED INVESTMENTS

The following are the REIT’s equity-accounted investments as at December 31, 2020, and 2019:

			Ownership		Carrying Value	
Property	**Place of Business**	**Investment Type**	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
The Fenestra	Rockville, MD	Joint Venture	**50%**	50%	**$40,671**	$41,147
Marquee at Block 37	Chicago, IL	Joint Venture	**50%**	50%	**52,334**	65,374
					$93,005	$106,521

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

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

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

As at December 31 (In thousands of Canadian dollars)	2020	2019
Balance, beginning of year	**$106,521**	$40,859
Additions	**—**	68,834
Distributions received	**(1,780)**	—
Share of net income (loss)	**(9,869)**	97
Foreign exchange loss	**(1,867)**	(3,269)
Balance, end of year	**$93,005**	$106,521

PART V

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

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

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

CASH FLOWS

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

For the years ended December 31 (In thousands of dollars)	2020	2019
Cash provided by operating activities	**$50,128**	$62,483
Cash used in investing activities	**(28,064)**	(67,831)
Cash provided by (used in) financing activities	**(11,572)**	6,072
Net increase in cash during the year	**10,492**	724
Net effect of foreign currency translation on cash balance	**(936)**	238
Cash, beginning of year	**17,748**	16,786
Cash, end of year	**$27,304**	$17,748

Cash Provided by Operating Activities

Cash provided by operating activities during the year ended December 31, 2020, was $50,128, compared to $62,483 in 2019. The change during the year mainly relates to a decrease in non-cash operating assets and liabilities of $14,844, an increase in trust expenses of $894, a decrease in other income of $1,074 and an increase in additions to tenant incentives of $169, partially offset by an increase in NOI (excluding IFRIC 21 adjustment) of $2,263, an increase in distributions from equity-accounted investments of $1,780 and a decrease in foreign exchange loss of $634.

Cash Used in Investing Activities

Cash used in investing activities during the year ended December 31, 2020, totalled $28,064, compared to $67,831 in 2019. Cash used in investing activities during the year consists of the capitalization of property enhancements and development expenditures.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities during the year ended December 31, 2020, totalled $11,572, compared to cash provided by financing activities of $6,072 in 2019. The cash used in financing activities during the year was largely due to distributions paid to Unitholders of $26,660, mortgage principal instalment repayments of $24,480, repayment of a mortgage on maturity of $8,757, distributions to non-controlling interest of $2,209 and an increase in restricted cash of $436, partially offset by the net proceeds received from the Morguard Facility of $26,424 and the net proceeds from new mortgages of $24,546.

CAPITAL STRUCTURE AND DEBT PROFILE

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

The total managed capital of the REIT is summarized below:

As at December 31 (In thousands of dollars)	2020	2019
Mortgages payable, principal balance	**$1,135,377**	$1,154,960
Class C LP Units and present value of tax payment, principal balance	**84,128**	87,483
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**6,600**	—
Lease liability	**9,103**	9,286
Class B LP Units	**274,708**	318,455
Unitholders' equity	**1,270,129**	1,136,363
Total capitalization	**$2,865,545**	$2,792,047

DEBT PROFILE

As at December 31, 2020, the overall leverage, as represented by the ratio of total indebtedness to gross book value was 42.8%. The requirements of the REIT's operating policies as outlined in the Declaration of Trust include the requirement that the REIT will not incur or assume indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of the REIT would be more than 70% of the gross book value.

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

The following table summarizes the key liquidity metrics:

As at December 31	2020	2019
Total indebtedness to gross book value	**42.8%**	44.1%
Weighted average mortgage interest rate(1)	**3.45%**	3.48%
Weighted average term to maturity on mortgages payable (years)	**4.8**	5.6

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

For the years ended December 31	2020	2019
Interest coverage ratio (1) (2)	**2.32**	2.29
Indebtedness coverage ratio (1) (3)	**1.58**	1.60

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

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

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

MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at December 31			2020	2019
	Mortgages Payable	**Class C LP Units**	**Total**	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,135,377**	**$75,086**	**$1,210,463**	$1,233,548
Deferred financing costs	**(9,896)**	**(184)**	**(10,080)**	(12,138)
Present value of tax payment on Class C LP Units	**—**	**9,042**	**9,042**	8,895
	$1,125,481	**$83,944**	**$1,209,425**	$1,230,305
Range of interest rates	**2.03−4.11%**	**3.97%**	**2.03−4.11%**	2.25−4.25%
Weighted average interest rate	**3.42%**	**3.97%**	**3.45%**	3.48%
Weighted average term to maturity (years)	**5.1**	**0.5**	**4.8**	5.6
Fair value of mortgages and Class C LP Units	**$1,215,688**	**$76,480**	**$1,292,168**	$1,261,120

As at December 31, 2020, the principal balance on the mortgages payable and Class C LP Units totalled $1,210,463 (2019 - $1,233,548) and the deferred financing costs associated with the mortgages and Class C LP Units amounted to $10,080 (2019 - $12,138).

The carrying value of the Class C LP Units that were issued to Morguard in consideration for the Retained Debt (see Part III, “Review of Operational Results”) includes the present value of the tax payments, which have been estimated to amount to $9,042 as at December 31, 2020 (2019 - $8,895).

Mortgages payable and Class C LP Units decreased by $20,880 as at December 31, 2020, to $1,209,425, compared to $1,230,305 at December 31, 2019. The decrease is mainly due to the following:

- Scheduled principal repayments of $24,480;
- The repayment of a mortgage in the amount of $8,757 at a property located in Ontario, which was refinanced for gross proceeds of $25,151;
- Financing cost of $605;
- A decrease of $15,363 due to the change in U.S. dollar foreign exchange rate; and
- Amortization of deferred financing cost and the present value adjustment of tax liability on Class C LP Units, totalling $3,174.

On June 3, 2020, the REIT completed the refinancing of a multi-suite residential property located in Mississauga, Ontario, in the amount of $25,151 at an interest rate of 2.03% and for a term of 10 years. The maturing mortgage amounted to $8,757 and had an interest rate of 4.25%.

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

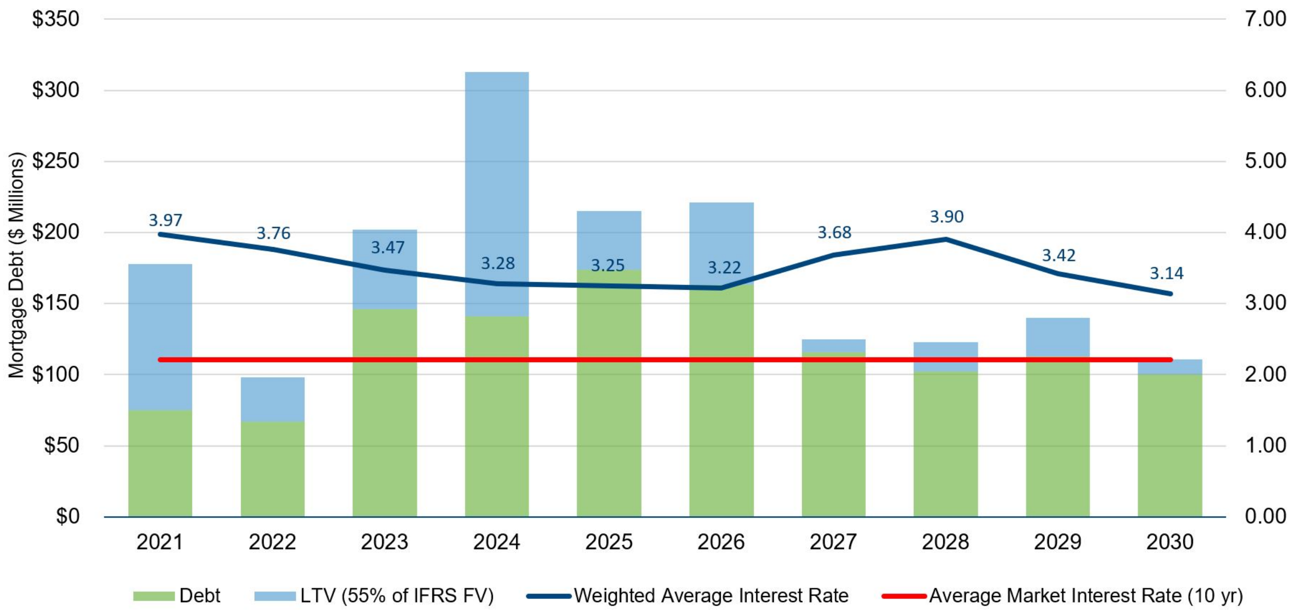
The REIT anticipates meeting all future obligations and has no off balance sheet financing arrangements.

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

			2021			2022
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Canada	4	$75,280	3.97%	—	$—	—%
U.S.	—	—	—%	3	67,223	3.76%
	4	**$75,280**	**3.97%**	**3**	**$67,223**	**3.76%**

As at December 31, 2020, the following table illustrates the REIT's mortgages and Class C LP Units (including equity-accounted investments at the REIT's interest), along with the IFRS fair value (at a loan-to-value of 55%) secured against the mortgages by year of maturity:

As at December 31, 2020



CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31 (In thousands of dollars)	2020	2019
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**1,577**	3,472
Unamortized financing costs	**(1,635)**	(2,297)
	$85,165	$86,398

For the year ended December 31, 2020, interest on the convertible debentures amounting to $3,848 (2019 - $3,848) is included in interest expense.

4.50% Convertible Unsecured Subordinated Debentures

On February 13, 2018, the REIT issued $75,000 principal amount of 4.50% convertible unsecured subordinated debentures maturing on March 31, 2023 (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, 2020, and 2019, $85,500 of the face value of the 2018 Debentures were outstanding.

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

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

MORGUARD FACILITY

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

As at December 31, 2020, the amount payable under the Morguard Facility was $6,600. 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.

During the year ended December 31, 2020, the REIT earned net interest income of $274 (2019 - $1,404) on the Morguard Facility.

LEASE LIABILITY

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

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

As at December 31 (In thousands of Canadian dollars)	2020	2019
Within 12 months	**$435**	$444
2 to 5 years	**1,826**	1,793
Over 5 years	**10,994**	11,729
Total minimum lease payments	**13,255**	13,966
Less: Future interest costs	**(4,152)**	(4,680)
Present value of minimum lease payments	**$9,103**	$9,286

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities for upcoming periods as at December 31, 2020, are as follows:

As at December 31, 2020	2021	2022	2023	2024	2025	Thereafter	Total
Mortgages payable and Class C LP Units	**$100,529**	**$94,376**	**$169,946**	**$161,954**	**$188,615**	**$495,043**	**$1,210,463**
Mortgage interest	**40,401**	**37,285**	**31,282**	**27,193**	**21,084**	**34,207**	**191,452**
Convertible debentures	**—**	**—**	**85,500**	**—**	**—**	**—**	**85,500**
Convertible debentures' interest	**3,848**	**3,848**	**949**	**—**	**—**	**—**	**8,645**
Morguard Facility	**6,600**	**—**	**—**	**—**	**—**	**—**	**6,600**
Accounts payable and accrued liabilities	**42,079**	**—**	**—**	**—**	**—**	**—**	**42,079**
Lease liability	**435**	**435**	**435**	**452**	**504**	**10,994**	**13,255**
	$193,892	**$135,944**	**$288,112**	**$189,599**	**$210,203**	**$540,244**	**$1,557,994**

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

UNITS

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

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

The following table summarizes the changes in Units for the period from December 31, 2018, to December 31, 2020:

Issued and Fully Paid Units (In thousands, except Unit amounts)	Units	Amount
Balance, December 31, 2018	33,722,880	$368,431
Issuance of Units for cash, net of costs	5,226,200	99,591
Units issued under DRIP	30,622	563
Balance, December 31, 2019	38,979,702	468,585
Units issued under DRIP	**40,125**	**625**
Balance, December 31, 2020	**39,019,827**	**$469,210**

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

NORMAL COURSE ISSUER BIDS

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

There were no repurchases of Units under the REIT's NCIB plan for the years ended December 31, 2020 and 2019.

DISTRIBUTION REINVESTMENT PLAN

Under the REIT's Distribution Reinvestment Plan ("DRIP"), Unitholders can elect to reinvest cash distributions into additional Units at a weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution. During the year ended December 31, 2020, the REIT issued 40,125 Units under the DRIP (2019 - 30,622 Units).

SPECIAL VOTING UNITS AND CLASS B LP UNITS

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

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

As at December 31, 2020, 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 $274,708 (2019 - $318,455) and a corresponding fair value gain for the year ended December 31, 2020 of $43,747 (2019 - loss of $23,079). For the year ended December 31, 2020, distributions on Class B LP Units amounting to $12,049 (2019 - $11,756) are included in interest expense.

As at December 31, 2020, Morguard owned a 44.7% effective interest in the REIT through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

As at December 31, 2020, there were 39,019,827 Units and 17,223,090 exchangeable Class B LP Units issued and outstanding.

As at February 16, 2021, there were 39,027,252 Units and 17,223,090 exchangeable Class B LP Units issued and outstanding.

PART VI

RELATED PARTY TRANSACTIONS

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

AGREEMENTS WITH MORGUARD AFFILIATES

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

Property Management

Pursuant to the Agreements, Morguard's affiliates administer the day-to-day operations of the Canadian and U.S. income producing properties, for which Morguard's affiliates receive partnership fees and distributions equal to 3.5% of gross property revenue of the income producing properties, payable monthly. For the year ended December 31, 2020, fees and distributions amounting to $9,129 (2019 - $8,583) are included in property operating costs and equity income (loss) from investments.

Asset Management

Pursuant to the Agreements, Morguard's affiliates have certain duties and responsibilities for the strategic management and administration of the Partnership and its subsidiaries, for which they receive partnership fees and distributions equal to 0.25% of the Partnership's gross book value defined as acquisition cost of the REIT's assets plus: (i) fair value adjustments; and (ii) accumulated amortization on property, plant and equipment. In addition, an annual fee and distribution is calculated in arrears, determined by multiplying 15% of the Partnership's funds from operations in excess of $0.66 per Unit. For the year ended December 31, 2020, fees and distributions amounting to $13,211 (2019 - $12,154) are included in trust expenses and equity income (loss) from investments.

Acquisition

Pursuant to the Agreements, Morguard's affiliates are entitled to receive partnership fees with respect to properties acquired, directly or indirectly, by the REIT from third parties, and the fees are to be paid upon the closing of the purchase of each such property. The fees range from 0% of the purchase price paid for properties acquired directly or indirectly from Morguard, including entities controlled by Morguard, up to 0.75% of the purchase price paid for properties acquired from third parties. For the year ended December 31, 2020, acquisition fees relating to acquisition services amounted to $nil (2019 - $1,315).

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, 2020, fees relating to financing services amounted to $37 (2019 - $331) 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, 2020, fees relating to development services amounting to $52 (2019 - $72) are included in property under development.

Other Services

As at December 31, 2020, and 2019, the REIT had its portfolio appraised by Morguard's appraisal division. Fees relating to appraisal services for the year ended December 31, 2020, amounting to $198 (2019 - $216) 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.

KEY MANAGEMENT COMPENSATION

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

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The REIT's consolidated financial statements for the years ended December 31, 2020 and 2019, have been prepared in accordance with IFRS. A summary of the significant accounting policies is included in Note 2 to the audited consolidated financial statements for the year ended December 31, 2020.

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.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

INCOME PRODUCING PROPERTIES

Income producing properties are recorded at fair value, determined based on available market evidence, at the balance sheet date. The critical assumptions and estimates used when determining the fair value of income producing properties are the amount of rental income from future leases reflecting current market conditions adjusted for assumption of future cash flows with respect to current and future leases, capitalization rates and expected occupancy rates. The properties are appraised using the direct capitalization income method. To assist with the evaluation of fair value, the REIT has its properties appraised by Morguard's appraisal division. Morguard's appraisal division is staffed with accredited members of the AIC who collectively in 2020 valued approximately $14 billion of real estate properties in Canada and the U.S. for institutional and corporate clients.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Management reports on a quarterly basis the fair value of financial instruments. The fair value of financial instruments approximates amounts at which these instruments could be exchanged between knowledgeable and willing parties. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. Management estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using December 31, 2020, market rates for debts of similar terms.

FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The fair values of the mortgages payable and Class C LP Units have been determined by discounting the cash flows of these financial obligations using December 31, 2020, market rates for debts of similar terms. Based on these assumptions, as at December 31, 2020, 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 $1,215,688 and $76,480 (2019 - $1,181,206 and $79,914), respectively. The fair values of the mortgages payable and Class C LP Units vary from their carrying values due to fluctuations in market interest rates since their issue.

The fair value of the convertible debentures are based on their market trading price. As at December 31, 2020, the fair value of the convertible debentures before deferred financing costs has been estimated at $88,339 (2019 - $91,400), compared with the carrying value of $85,223 (2019 - $85,223).

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

RISKS AND UNCERTAINTIES

An investment in securities of the REIT involves significant risks. Investors should consider carefully the risks described below, the other information described elsewhere in this MD&A (as updated by subsequent interim MD&A) and those risks set out in the REIT’s Annual Information Form (“AIF”) for the year ended December 31, 2020, dated February 16, 2021, before making a decision to buy securities of the REIT. If any of the following or other risks occur, the REIT’s business, prospects, financial condition, financial performance and cash flows could be materially adversely affected. In that case, the ability of the REIT to make distributions to Unitholders and the Partnership to make distributions could be adversely affected, the trading price of securities of the REIT could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

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

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

COVID-19 AND OTHER PANDEMIC OR EPIDEMIC

The ongoing COVID-19 pandemic has led to prolonged voluntary and mandatory building closures, business closures, government restrictions on travel, movement and gatherings, quarantines, curfews, self-isolation and physical distancing. The impact of these measures has led to a general shutdown of economic activity and has disrupted workforce and business operations both in North America and other parts of the world. Such occurrences could have a material adverse effect on the demand for real estate, the ability of tenants to pay rent and the debt and equity capital markets. The duration and impact of the on-going COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. The pace of recovery following such occurrences cannot be accurately predicted, nor can the impact on the REIT's business and operations, real estate valuations, securities, cash flows, results of operations and the REIT's ability to obtain additional financing or re-financing and ability to make distributions to Unitholders.

Specifically, such enhanced risks associated with COVID-19 may include, but are not limited to:

(a) a material reduction in rental revenue and related collections due to associated financial hardship, unemployment and non-essential business orders governing the complete and partial closure of certain businesses;

(b) a material increase in vacancy potentially caused by both the resulting economic crisis and the inability of businesses to operate;

(c) the negative impact on Canadian and global debt and equity capital markets, impacting both pricing and availability;

(d) ability to access capital markets at a reasonable cost;

(e) the trading price of the REIT’s securities;

(f) uncertainty of real estate valuations resulting from the impact of a potential decline in revenue and/or lack of market activity and demand for real estate;

(g) uncertainty delivering services due to illness, REIT- or government-imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions;

(h) uncertainty associated with costs, delays and availability of resources required to complete major maintenance and expansion projects on time and budget and lease up space following completion of development projects;

(i) adverse impacts on the creditworthiness of tenants and other counterparties;

(j) increased risk of cyber attacks due to remote working environments and increased reliance on information technology infrastructure; and

(k) the impact of additional legislation, regulation, fiscal and monetary policy responses and other government interventions.

The foregoing is not an exhaustive list of all risk factors.

Developments since March 2020 regarding the COVID-19 pandemic have resulted in a substantive shift in management’s focus towards ensuring the continued health and safety of our employees and service partners, compliance with guidelines and requirements issued by various health authorities and government organizations, and continuity of other critical business operations. We remain focused on delivering our key business operations.

Other outbreaks of pandemics and epidemics may have similar impacts on our business, operations, financial condition and ability to make distributions to Unitholders.

OPERATING RISK

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

Tenant retention and leasing vacant suites are critical to maintaining occupancy levels. The ongoing COVID-19 pandemic and changing economic and demographic conditions may adversely impact tenant retention in certain locations. Through well-located and professionally managed properties, management seeks to increase tenant loyalty and become the landlord of choice.

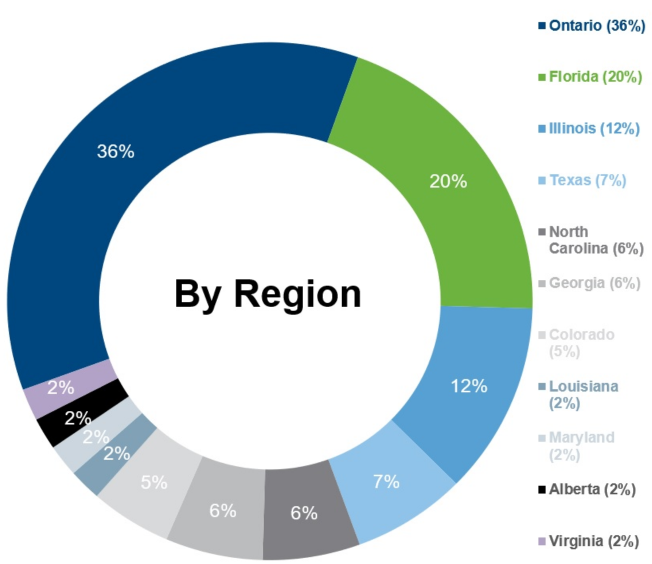
Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments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

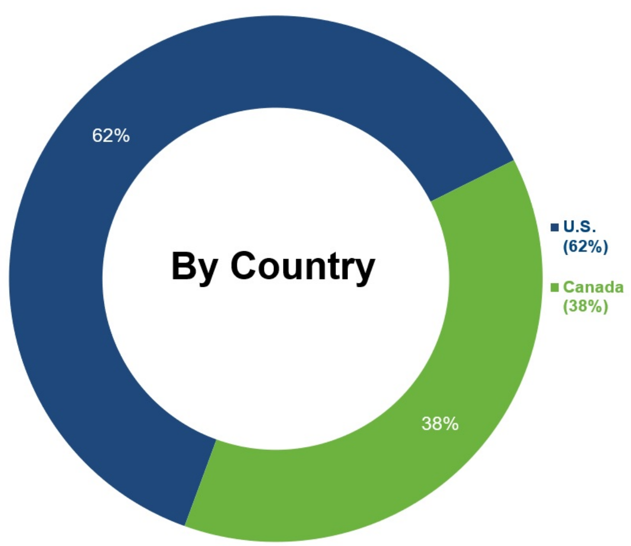
The REIT is also subject to property tax and utility risk relating to increased costs that the REIT may experience as a result of higher resource prices, as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of revaluations of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

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

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

For the year ended December 31, 2020, the portfolio diversification (inclusive of equity-accounted investments) as a percentage of NOI is as follows:





REPORTING INVESTMENT PROPERTY AT FAIR VALUE

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

There is a risk that general declines in real estate markets or sales of assets by the REIT under financial or other hardship, including as a result of changes in demand for real estate resulting from COVID-19 and related economic conditions, would have an impact on the fair values reported or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect the REIT's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser because this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have a significant impact on the REIT's operating revenues and cash flows, as well as the fair values of the investment properties.

FOREIGN EXCHANGE RISK

A significant portion of the REIT's real estate properties are located in the United States. As a result, the REIT is exposed to foreign currency exchange rate risk with respect to future cash flows derived from the properties located in the U.S. The REIT's exposure to exchange rate risk could increase if the proportion of income from properties located in the United States increases as a result of future property acquisitions in the United States.

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

As at December 31, 2020, the Canadian dollar value was US$0.79 compared to US$0.77 a year earlier. The average exchange rate for the year ended December 31, 2020, was US$0.75 compared to US$0.75 during 2019. The strengthening of the Canadian dollar during 2020 resulted in an unrealized foreign currency translation loss of $16,110 for the year ended December 31, 2020, recognized in other comprehensive income ("OCI").

RISK RELATED TO GOVERNMENT REGULATIONS

Certain provinces and territories of Canada have enacted residential tenancy legislation that, among other things, imposes rent control guidelines that limit the REIT's ability to raise rental rates at its properties. Limits on the REIT's ability to raise rental rates at its properties may materially adversely affect the REIT's ability to increase income from its properties.

In addition to limiting the REIT's ability to raise rental rates, provincial and territorial residential tenancy legislation provides certain rights to tenants, while imposing obligations upon the landlord. Residential tenancy legislation in the provinces of Alberta and Ontario prescribes certain procedures that must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective administrative body governing residential tenancies as appointed under a province's residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears. Additionally, various markets in which the REIT operates have paused eviction enforcement due to financial defaults during the COVID-19 pandemic.

Under Ontario's rent control legislation, a landlord is entitled to increase the rent for existing tenants once every 12 months by no more than the "guideline amount" based on the CPI. The guideline increase cannot be more than 2.5%, even if the CPI increase is higher. For the calendar year 2020, the guideline amount was established at 2.2% (1.8% for 2019). In September 2020, the Government of Ontario passed legislation to freeze rent in 2021 by setting the rental guideline amount to 0.0%. This adjustment is meant to take into account the income of the building and the municipal and school taxes, the insurance bills, the energy costs, maintenance and service costs. Landlords may apply to the Ontario Rental Housing Tribunal for an increase above the guideline amounts if annual costs for heat, hydro, water or municipal taxes have increased significantly or if building security, maintenance and service costs have increased. When a suite is vacated, however, the landlord is entitled to lease the suite to a new tenant at any rental amount, after which annual increases are limited to the applicable guideline amount. The landlord may also be entitled to a greater increase in rent for a suite under certain circumstances, including, for example, where extra expenses have been incurred as a result of a renovation of that suite.

COMPETITION

The multi-suite residential real estate sector is highly competitive. The REIT faces competition from many sources, including other multi-suite residential buildings in the immediate vicinity and the broader regions where the REIT's residential properties are located. In addition, overbuilding in the multi-suite residential sector, particularly in the United States, may increase the supply of multi-suite residential properties, further increasing the level of competition in certain markets. Such competition may reduce occupancy rates and rental revenues of the REIT and could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

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

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

FINANCING RISK

The REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities secured by the REIT's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. The COVID-19 pandemic and related economic and market conditions may adversely impact credit and capital markets. To minimize this risk, the REIT has structured its debt maturities over a number of years and has negotiated fixed interest rates on all of its mortgages payable.

DEPENDENCE ON THE PARTNERSHIP

The REIT is an unincorporated, open-ended real estate investment trust that is entirely dependent on the operations and assets of the Partnership through the REIT's ownership of a 69.4% limited partnership interest in the Partnership. Cash distributions to holders of Units will be dependent on, among other things, the ability of the Partnership to make cash distributions with respect to the Class A LP Units. The Partnership and its subsidiaries are separate and distinct legal entities. The ability of the Partnership to make cash distributions or other payments or advances will depend on the Partnership's results of operations and may be restricted by, among other things, applicable corporate, tax and other laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of the Partnership (including the Retained Debt), any priority distributions contained in the Limited Partnership Agreement and other agreements governing the Partnership, and restrictions contained in the agreements governing the arrangement with the co-owners of certain properties.

DEPENDENCE ON MORGUARD

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

SIGNIFICANT OWNERSHIP BY MORGUARD

At the date hereof, Morguard holds an approximately 44.7% effective interest in the REIT through ownership of, or the control or direction over, Units and Class B LP Units. For so long as Morguard maintains a significant effective interest in the REIT, Morguard benefits from certain contractual rights regarding the REIT and the Partnership, such as pre-emptive rights to maintain its *pro rata* ownership interest in the REIT and the Partnership and certain “tag-along” rights to sell a proportionate number of its Units pursuant to a *bona fide* third-party offer to the REIT to purchase any of the securities of a partnership controlled by the REIT on the same terms and conditions set forth in the *bona fide* offer. Morguard has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes and also may have the ability to effectively prevent certain fundamental transactions. Morguard’s significant effective interest may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price.

TAXATION MATTERS

The Act contains rules (the “SIFT Rules”) that apply to a SIFT. A SIFT partnership or trust includes a publicly listed or traded partnership or trust such as an income trust. Under the SIFT Rules, certain distributions will not be deductible in computing the SIFT trust’s taxable income, and the SIFT trust will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT trust as returns of capital should generally not be subject to the tax. The SIFT Rules do not apply to a trust that satisfies certain conditions relating to the nature of its income and investments (the “REIT Exception”). Although, as of the date hereof, management believes that the REIT will be able to meet the requirements of the REIT Exception throughout 2020 and beyond, there can be no assurance that the REIT will be able to qualify for the REIT Exception such that the REIT and the Unitholders will not be subject to the SIFT Rules in 2021 or future years.

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

The REIT intends to comply with the requirements under the Act at all relevant times such that it will maintain its status as a “unit trust” and a “mutual fund trust” for purposes of the Act. Under current law, a trust may lose its status under the Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of non-residents, except in limited circumstances. Accordingly, non-residents may not be the beneficial owners of more than 49% of the Units (determined on a basic or a fully diluted basis). The Trustees will also have various powers that can be used for the purpose of monitoring and controlling the extent of non-resident ownership of the Units. The restrictions on the issuance of Units by the REIT to non-residents may negatively affect the REIT’s ability to raise financing for future acquisitions or operations. In addition, the non-resident ownership restrictions could have a negative impact on the liquidity of the Units and the market price at which Units can be sold. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”) respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders.

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

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

INTERNAL CONTROLS

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

POTENTIAL CONFLICTS OF INTEREST WITH MORGUARD

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

VOLATILE MARKET PRICE FOR THE REIT'S SECURITIES

The market price for the REIT's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (i) the actual or perceived impact of the COVID-19 pandemic and related financial conditions; (ii) actual or anticipated fluctuations in the REIT's financial performance and future prospects; (iii) recommendations by securities research analysts; (iv) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (v) addition to or departure of the REIT's executive officers; (vi) release or expiration of lock-up or other transfer restrictions on outstanding Units or Class B LP Units; (vii) sales or perceived sales of additional Units; (viii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (ix) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets; (x) liquidity of the REIT's securities; (xi) prevailing interest rates; (xii) the market price of other REIT securities; (xiii) a decrease in the amount of distributions declared and paid by the REIT; and (xiv) general economic conditions.

UNITHOLDER LIABILITY

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

DISTRIBUTIONS

As a result of seasonal fluctuations in cash flows or other potential reductions in cash flow, including those that may result from decreases in rental revenues relating to the COVID-19 pandemic and related economic conditions, the REIT from time to time may pay distributions to Unitholders that have exceeded cash flow from operating activities. As a result, the REIT has not funded distributions from alternate sources such as the Morguard Facility, mortgages or other financing instruments, has not made any distributions that have included a return of capital and has not been required to amend any material contracts. There can be no assurance in the future that the REIT will continue to fund distributions entirely from cash from operating activities. In such an event, the REIT may be required to fund its distributions from sources other than operations, such as the Morguard Facility, mortgages or other financing instruments; make distributions that include a return of capital; or amend material contracts. In addition, non-cash distributions, such as the issuance of Units under the DRIP, have the effect of increasing the number of Units outstanding, which may cause cash distributions to increase over time assuming stable per Unit cash distribution levels.

DILUTION

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

WITHHOLDING TAX

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

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

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

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

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

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

The REIT's management has evaluated the effectiveness of the REIT's disclosure controls and procedures and, based on such evaluation, has concluded that their design and operation are adequate and effective as of and for the year ended December 31, 2020. The REIT's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that the design and operation are effective as of and for the year ended December 31, 2020.

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

PART VIII

SELECTED ANNUAL AND QUARTERLY INFORMATION

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

For the years ended December 31 (In thousands of dollars)	**2020**	2019	2018
Revenue from real estate properties	**$248,683**	$245,596	$241,368
NOI	**135,533**	132,862	131,693
NOI per Unit[1]			
- basic	**2.41**	2.52	2.59
- diluted	**2.24**	2.33	2.38
Net income attributable to Unitholders	**175,216**	76,815	172,225
Net income attributable to Unitholders per Unit[1]			
- basic	**3.12**	1.46	3.38
- diluted	**2.96**	1.35	3.12
FFO			
- basic	**68,945**	64,218	61,161
- diluted	**72,793**	68,066	64,983
FFO per Unit[1]			
- basic	**1.23**	1.22	1.20
- diluted	**1.20**	1.19	1.18
Distributions declared[2]	**39,334**	36,018	33,784
Distributions per Unit (annualized)	**0.6996**	0.6826	0.6632
Total assets	**3,084,358**	3,033,427	3,011,469
Non-current portion of financial liabilities			
Mortgages payable and Class C LP Units	**1,102,235**	1,200,587	1,195,709
Convertible debentures	**85,165**	86,398	84,769
Class B LP Units	**274,708**	318,455	295,376
Lease liability	**9,103**	9,286	9,754
Number of suites	**13,275**	13,277	13,430

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

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

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

(In thousands of dollars, except per Unit amounts)	Revenue	NOI	FFO	Net Income (Loss) Attributable to Unitholders	Net Income (Loss) Attributable to Unitholders per Unit	
					Basic	Diluted[1]
December 31, 2020	**$61,025**	**$38,192**	**$15,429**	**$7,237**	**$0.13**	**$0.13**
September 30, 2020	62,159	38,796	16,085	51,908	0.92	0.88
June 30, 2020	63,202	41,255	19,324	19,629	0.35	0.34
March 31, 2020	62,297	17,290	18,107	96,442	1.72	1.61
December 31, 2019	61,243	38,998	17,127	34,576	0.64	0.54
September 30, 2019	61,135	38,038	16,148	(1,950)	(0.05)	(0.03)
June 30, 2019	60,960	38,989	15,697	40,719	0.80	0.77
March 31, 2019	62,258	16,837	15,246	3,470	0.07	0.07

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

SUMMARY OF QUARTERLY RESULTS

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

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

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

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

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

Revenue and Net Operating Income

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

In Canada, certain provinces and territories have enacted residential tenancy legislation that, among other things, imposes rent control guidelines that limit the REIT's ability to raise rental rates at its properties. For the calendar year 2020, the Ontario guideline increase amount was established at 2.2% (1.8% for 2019). In addition, overbuilding in the multi-suite residential sector, particularly in the United States, may increase the supply of multi-suite residential properties, further increasing the level of competition in certain markets. Such competition may reduce occupancy rates and rental revenues of the REIT and, consequently, revenue and operating results.

The REIT has seen steady revenue growth leading up to the third quarter of 2020 resulting from an increase in Same Property revenue, subsequent to the third quarter of 2020 increased vacancy has contributed to lower revenue. The decline in revenue during the second quarter of 2019 is primarily the result of the disposal of five properties during the first half of 2019, which was partially offset by an increase in Same Property revenue.

As at December 31, 2020, Same Property occupancy in Canada was 94.9%, reflecting stable demand predominantly in Ontario. Approximately 79% of the suites in Canada are located in the GTA. The GTA is Canada's most significant economic cluster and contains the largest concentration of people.

As at December 31, 2020, Same Property occupancy in the U.S. was 93.6% as the REIT's overall U.S. occupancy reached near optimum levels throughout 2019 and in many regions during 2020. Since the first quarter of 2020, the onset of COVID-19 and stay-at-home orders disrupted normal traffic patterns throughout the U.S. portfolio.

Similar to revenue, NOI has profiled steady growth over the last eight quarters resulting from an increase in revenue and the REIT's ability to control expenses as a percentage of revenue. As noted above, the decline in NOI during the third and fourth quarters of 2020 is primarily a result of increased vacancy. The impact of foreign exchange rates and of acquisitions and dispositions also factor into the variance from quarter to quarter. Furthermore, the first quarter results (three months ended March 31) are impacted by IFRIC 21, whereby the REIT records the entire annual realty tax expense for its U.S. properties on January 1, except for U.S. properties acquired during the year in which the realty taxes are not recorded in the year of acquisition. As a result, the second, third and fourth quarters typically have no realty tax expense which results in higher NOI and NOI margins.

Net Income (Loss) Attributable to Unitholders

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

- The REIT valued the Class B LP Units based on the closing price of the TSX-listed Units. During the year ended December 31, 2020, the volatility of the stock market from the impact of the global health crisis resulted in a significant decline in the REIT's Unit price and a fair value gain on the Class B LP Units. Prior and subsequent to the quarter ended March 31, 2020, there has generally been an upward trend in the trading price of the REIT's Units resulting in a fair value loss on Class B LP Units;

- The REIT has recorded a fair value gain on real estate properties for the years ended December 31, 2020 and 2019, due to an increase in stabilized NOI;
- The REIT has recorded deferred tax expense coinciding with the fair value gains of the REIT's U.S. real estate properties.

Fourth Quarter Results 2020

For the three months ended December 31 (In thousands of dollars)	2020	2019
Revenue from real estate properties	**$61,025**	$61,243
Property operating expenses		
Property operating costs	**(16,393)**	(15,691)
Realty taxes	**(1,906)**	(1,860)
Utilities	**(4,534)**	(4,694)
Net operating income	**38,192**	38,998
Other expenses (income)		
Interest expense	**16,549**	13,688
Trust expenses	**3,578**	3,710
Equity loss from investments	**7,323**	2,068
Foreign exchange loss	**737**	368
Other expense (income)	**201**	(875)
Income before fair value changes and income taxes	**9,804**	20,039
Fair value loss on real estate properties, net	**(1,990)**	(12,450)
Fair value gain (loss) on Class B LP Units	**(24,973)**	23,423
Income (loss) before income taxes	**(17,159)**	31,012
Provision for (recovery of) income taxes		
Current	**33**	33
Deferred	**(14,101)**	(4,918)
	(14,068)	(4,885)
Net income (loss) for the period	**($3,091)**	$35,897
Net income (loss) attributable to:		
Unitholders	**$7,237**	$34,576
Non-controlling interest	**(10,328)**	1,321
	($3,091)	$35,897

The REIT's net income attributable to Unitholders for the three months ended December 31, 2020, decreased by $27,339 to $7,237, compared to $34,576 for the three months ended December 31, 2019. Non-controlling interest share of net income during the three months ended December 31, 2020, decreased by $11,649 to a net loss of $10,328, compared to net income of $1,321 for the three months ended December 31, 2019.

The decrease in net income was primarily due to the following:

- A fair value decrease of $48,396 on Class B LP Units due to an increase in trading price of the Units during the fourth quarter of 2020, compared to a decrease in trading price in the same period in 2019;
- An increase in equity loss from investments of $5,255, resulting from a higher fair value loss on real estate properties resulting from a decrease in stabilized NOI assumptions;
- A decrease of $3,147 in the fair value on the convertible debentures' conversion option included in interest expense;
- An increase in other expenses of $1,076 due to lower interest income earned on the Morguard Facility;
- An increase in foreign exchange loss of $369; and
- A decrease in NOI of $806, largely attributable to an increase in vacancy.

These items were partially offset by the following:

- A lower fair value decrease on real estate properties of $10,460, resulting from a fair value loss of $1,990 recorded during the fourth quarter of 2020, compared to a fair value loss of $12,450 in 2019; and
- An increase in deferred income tax recovery of $9,183 mainly due to decrease in the fair value of U.S. real estate properties.

PART IX

RECONCILIATION OF NON-IFRS MEASURES

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

BALANCE SHEETS

As at December 31, 2020	IFRS	Non-IFRS Adjustments: NCI Share	Non-IFRS Adjustments: Equity Interest	Proportionate Basis (Non-IFRS)
ASSETS				
Non-current assets				
Real estate properties	$2,941,241	($175,550)	$241,909	$3,007,600
Equity-accounted investments	93,005	—	(93,005)	—
	3,034,246	(175,550)	148,904	3,007,600
Current assets				
Amounts receivable	5,649	(220)	303	5,732
Prepaid expenses	7,809	(203)	769	8,375
Restricted cash	9,350	(132)	924	10,142
Cash	27,304	(703)	2,266	28,867
	50,112	(1,258)	4,262	53,116
	$3,084,358	($176,808)	$153,166	$3,060,716
LIABILITIES AND EQUITY				
Non-current liabilities				
Mortgages payable and Class C LP Units	$1,102,235	($95,300)	$147,049	$1,153,984
Convertible debentures	85,165	—	—	85,165
Class B LP Units	274,708	—	—	274,708
Deferred income tax liabilities	109,659	—	—	109,659
Accounts payable and accrued liabilities	9,103	—	—	9,103
	1,580,870	(95,300)	147,049	1,632,619
Current liabilities				
Mortgages payable and Class C LP Units	107,190	(545)	2,219	108,864
Morguard Facility	6,600	—	—	6,600
Accounts payable and accrued liabilities	42,079	(3,473)	3,898	42,504
	155,869	(4,018)	6,117	157,968
Total liabilities	1,736,739	(99,318)	153,166	1,790,587
EQUITY				
Unitholders' equity	1,270,129	—	—	1,270,129
Non-controlling interest	77,490	(77,490)	—	—
Total equity	1,347,619	(77,490)	—	1,270,129
	$3,084,358	($176,808)	$153,166	$3,060,716

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

As at December 31, 2020	IFRS	Non-IFRS Adjustments: NCI Share	Non-IFRS Adjustments: Equity Interest	Proportionate Basis (Non-IFRS)
Total Assets / Gross book value[(1)]	$3,084,358	($176,808)	$153,166	$3,060,716
Mortgage payable and Class C LP Units	$1,209,425	($95,845)	$149,268	$1,262,848
Add: deferred financing costs	10,080	(320)	731	10,491
	1,219,505	(96,165)	149,999	1,273,339
Convertible debentures, face value	85,500	—	—	85,500
Morguard Facility	6,600	—	—	6,600
Lease liability	9,103	—	—	9,103
Indebtedness	$1,320,708	($96,165)	$149,999	$1,374,542
Indebtedness / Gross book value	42.8%			44.9%

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

STATEMENTS OF INCOME

For the three months ended December 31 (In thousands of dollars)	2020					2019				
		Non-IFRS Adjustments					Non-IFRS Adjustments			
	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
Revenue from properties										
Same Property	**$61,002**	**($3,423)**	**$1,620**	**$—**	**$59,199**	$61,243	($3,606)	$1,782	$—	$59,419
Acquisitions	**23**	**—**	**2,514**	**—**	**2,537**	—	—	769	—	769
Total revenue from properties	**61,025**	**(3,423)**	**4,134**	**—**	**61,736**	61,243	(3,606)	2,551	—	60,188
Property operating expenses										
Same Property										
Operating costs	**16,309**	**(1,020)**	**515**	**—**	**15,804**	15,685	(873)	443	—	15,255
Realty taxes	**1,874**	**47**	**(3)**	**5,379**	**7,297**	1,860	56	(3)	5,114	7,027
Utilities	**4,509**	**(115)**	**113**	**—**	**4,507**	4,700	(154)	176	—	4,722
Same Property	**22,692**	**(1,088)**	**625**	**5,379**	**27,608**	22,245	(971)	616	5,114	27,004
Acquisitions	**141**	**—**	**891**	**576**	**1,608**	—	—	225	143	368
Total property operating expenses	**22,833**	**(1,088)**	**1,516**	**5,955**	**29,216**	22,245	(971)	841	5,257	27,372
NOI										
Same Property	**38,310**	**(2,335)**	**995**	**(5,379)**	**31,591**	38,998	(2,635)	1,166	(5,114)	32,415
Acquisitions	**(118)**	**—**	**1,623**	**(576)**	**929**	—	—	544	(143)	401
Total NOI[(1)]	**38,192**	**(2,335)**	**2,618**	**(5,955)**	**32,520**	38,998	(2,635)	1,710	(5,257)	32,816
Other expenses (income)										
Interest expense	**16,549**	**(906)**	**1,329**	**—**	**16,972**	13,688	(923)	661	—	13,426
Trust expenses	**3,578**	**(69)**	**155**	**—**	**3,664**	3,710	(85)	83	—	3,708
Equity loss from investments	**7,323**	**—**	**(7,323)**	**—**	**—**	2,068	—	(2,068)	—	—
Foreign exchange loss	**737**	**—**	**—**	**—**	**737**	368	—	—	—	368
Other expense (income)	**201**	**—**	**—**	**—**	**201**	(875)	—	—	—	(875)
Income before fair value changes and income taxes	**9,804**	**(1,360)**	**8,457**	**(5,955)**	**10,946**	20,039	(1,627)	3,034	(5,257)	16,189
Fair value loss on real estate properties, net	**(1,990)**	**11,688**	**(8,457)**	**5,955**	**7,196**	(12,450)	306	(3,034)	5,257	(9,921)
Fair value gain (loss) on Class B LP Units	**(24,973)**	**—**	**—**	**—**	**(24,973)**	23,423	—	—	—	23,423
Income (loss) before income taxes	**(17,159)**	**10,328**	**—**	**—**	**(6,831)**	31,012	(1,321)	—	—	29,691
Provision for income taxes										
Current	**33**	**—**	**—**	**—**	**33**	33	—	—	—	33
Deferred	**(14,101)**	**—**	**—**	**—**	**(14,101)**	(4,918)	—	—	—	(4,918)
	(14,068)	**—**	**—**	**—**	**(14,068)**	(4,885)	—	—	—	(4,885)
Net income (loss) for the period	**($3,091)**	**$10,328**	**$—**	**$—**	**$7,237**	$35,897	($1,321)	$—	$—	$34,576
(1) NOI included the following:										
IFRIC 21	**($5,707)**	**$599**	**($847)**	**$5,955**	**$—**	($5,439)	$598	($416)	$5,257	$—

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

For the three months ended December 31 (In thousands of dollars)	2020					2019				
		Non-IFRS Adjustments					Non-IFRS Adjustments			
	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
NOI	**$38,192**	**($2,335)**	**$2,618**	**($5,955)**	**$32,520**	$38,998	($2,635)	$1,710	($5,257)	$32,816
IFRIC 21 adjustment	**(5,707)**	**599**	**(847)**	**5,955**	**—**	(5,439)	598	(416)	5,257	—
Trust expenses	**(3,578)**	**69**	**(155)**	**—**	**(3,664)**	(3,710)	85	(83)	—	(3,708)
Other income (expense)	**(201)**	**—**	**—**	**—**	**(201)**	875	—	—	—	875
	$28,706	**($1,667)**	**$1,616**	**$—**	**$28,655**	$30,724	($1,952)	$1,211	$—	$29,983
Interest expense	**$16,549**	**($906)**	**$1,329**	**$—**	**$16,972**	$13,688	($923)	$661	$—	$13,426
Fair value gain (loss) on conversion option on the convertible debentures	**(767)**	**—**	**—**	**—**	**(767)**	2,380	—	—	—	2,380
Distributions on Class B LP Units	**(3,012)**	**—**	**—**	**—**	**(3,012)**	(2,983)	—	—	—	(2,983)
	$12,770	**($906)**	**$1,329**	**$—**	**$13,193**	$13,085	($923)	$661	$—	$12,823
Interest coverage ratio	**2.25**				**2.17**	2.35				2.34
Indebtedness coverage ratio	**1.51**				**1.47**	1.62				1.61

STATEMENTS OF INCOME (CONTINUED)

	2020				2019				
		Non-IFRS Adjustments				Non-IFRS Adjustments			
For the years ended December 31 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
Revenue from properties									
Same Property	**$247,032**	**($14,232)**	**$7,019**	**$239,819**	$241,893	($14,536)	$6,858	$—	$234,215
Acquisitions / Dispositions	**1,651**	**—**	**12,445**	**14,096**	3,703	(651)	769	—	3,821
Total revenue from properties	**248,683**	**(14,232)**	**19,464**	**253,915**	245,596	(15,187)	7,627	—	238,036
Property operating expenses									
Same Property									
Operating costs	**63,387**	**(3,695)**	**2,033**	**61,725**	61,566	(3,471)	2,040	—	60,135
Realty taxes	**31,544**	**(2,319)**	**1,103**	**30,328**	31,166	(2,415)	1,089	—	29,840
Utilities	**17,458**	**(559)**	**460**	**17,359**	17,654	(563)	572	—	17,663
Same Property	**112,389**	**(6,573)**	**3,596**	**109,412**	110,386	(6,449)	3,701	—	107,638
Acquisitions / Dispositions	**761**	**—**	**5,777**	**6,538**	2,348	(248)	225	(265)	2,060
Total property operating expenses	**113,150**	**(6,573)**	**9,373**	**115,950**	112,734	(6,697)	3,926	(265)	109,698
NOI									
Same Property	**134,643**	**(7,659)**	**3,423**	**130,407**	131,507	(8,087)	3,157	—	126,577
Acquisitions / Dispositions	**890**	**—**	**6,668**	**7,558**	1,355	(403)	544	265	1,761
Total NOI[1]	**135,533**	**(7,659)**	**10,091**	**137,965**	132,862	(8,490)	3,701	265	128,338
Other expenses (income)									
Interest expense	**62,111**	**(3,730)**	**5,457**	**63,838**	65,812	(3,822)	1,970	—	63,960
Trust expenses	**15,237**	**(285)**	**684**	**15,636**	14,343	(300)	249	—	14,292
Equity loss (income) from investments	**9,869**	**—**	**(9,869)**	**—**	(97)	—	97	—	—
Foreign exchange loss	**220**	**—**	**—**	**220**	854	—	—	—	854
Other income	**(431)**	**—**	**—**	**(431)**	(1,505)	—	—	—	(1,505)
Income before fair value changes and income taxes	**48,527**	**(3,644)**	**13,819**	**58,702**	53,455	(4,368)	1,385	265	50,737
Fair value gain on real estate properties, net	**72,238**	**12,055**	**(13,819)**	**70,474**	55,977	1,055	(1,385)	(265)	55,382
Fair value gain (loss) on Class B LP Units	**43,747**	**—**	**—**	**43,747**	(23,079)	—	—	—	(23,079)
Income before income taxes	**164,512**	**8,411**	**—**	**172,923**	86,353	(3,313)	—	—	83,040
Provision for (recovery of) income taxes									
Current	**131**	**—**	**—**	**131**	132	—	—	—	132
Deferred	**(2,424)**	**—**	**—**	**(2,424)**	6,093	—	—	—	6,093
	(2,293)	**—**	**—**	**(2,293)**	6,225	—	—	—	6,225
Net income for the year	**$166,805**	**$8,411**	**$—**	**$175,216**	$80,128	($3,313)	$—	$—	$76,815
(1) NOI included the following:									
IFRIC 21	**$—**	**$—**	**$—**	**$—**	$408	$—	($143)	($265)	$—

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

	2020					2019				
		Non-IFRS Adjustments					Non-IFRS Adjustments			
For the years ended December 31 (In thousands of dollars)	**IFRS**	**NCI Share**	**Equity Interest**	**IFRIC 21**	**Proportionate Basis (Non-IFRS)**	IFRS	NCI Share	Equity Interest	IFRIC 21	Proportionate Basis (Non-IFRS)
NOI	**$135,533**	**($7,659)**	**$10,091**	**$—**	**$137,965**	$132,862	($8,490)	$3,701	$265	$128,338
IFRIC 21 adjustment	**—**	**—**	**—**	**—**	**—**	408	—	(143)	(265)	—
Trust expenses	**(15,237)**	**285**	**(684)**	**—**	**(15,636)**	(14,343)	300	(249)	—	(14,292)
Other income	**431**	**—**	**—**	**—**	**431**	1,505	—	—	—	1,505
	$120,727	**($7,374)**	**$9,407**	**$—**	**$122,760**	$120,432	($8,190)	$3,309	$—	$115,551
Interest expense	**$62,111**	**($3,730)**	**$5,457**	**$—**	**$63,838**	$65,812	($3,822)	$1,970	$—	$63,960
Loss on extinguishment of mortgages	**—**	**—**	**—**	**—**	**—**	(561)	—	—	—	(561)
Fair value gain (loss) on conversion option on the convertible debentures	**1,895**	**—**	**—**	**—**	**1,895**	(1,003)	—	—	—	(1,003)
Distributions on Class B LP Units	**(12,049)**	**—**	**—**	**—**	**(12,049)**	(11,756)	—	—	—	(11,756)
	$51,957	**($3,730)**	**$5,457**	**$—**	**$53,684**	$52,492	($3,822)	$1,970	$—	$50,640
Interest coverage ratio	**2.32**				**2.29**	2.29				2.28
Indebtedness coverage ratio	**1.58**				**1.58**	1.60				1.59

PART X

OUTLOOK

The resilience of Canada's multi-suite residential purpose-built rental sector was evidenced during 2020, despite the unfolding of an unprecedented public health crisis and resulting economic contraction, record-high job losses and heightened levels of uncertainty. For the most part, rental households continued to meet their rental payment obligations, as governments transferred funds to eligible Canadian's through programs such as the Canada Emergency Response Benefit and Employment Insurance to offset lost income as a result of job losses and reductions in employment income due to the closure of non-essential businesses to combat the spread of the COVID-19 virus. As a result, most landlords achieved rental collections of 95% or better. The closure of Canada's international borders had a moderately negative impact on rental demand and, by extension, rental market fundamentals. Vacancy levels increased from the pre-pandemic record lows, particularly in the country's most expensive downtown submarkets where foreign students and new arrivals have tended to rent accommodation. Despite the demand-softening, the main multi-suite residential rental sector theme of the past year was one of relative resilience.

Multi-suite residential rental sector investment demand continued to outpace supply during 2020, as investors focused on assets with defensive attributes and secure income streams. Consequently, modest downward pressure on cap rates was recorded during the past year for properties in the country's major markets. Despite the supply shortfall, sales activity continued to range near the record level of the recent past throughout 2020.

Looking ahead to 2021, Canada's multi-suite residential sector is expected to post positive returns, in keeping with the trend of the past few years. The Canadian economy is expected to grow at an annualized rate of 5.6% in 2021 as projected by the Conference Board of Canada, bouncing back from the sharp contraction in economic output as a result of the negative impact of the pandemic in 2020. The risks associated with this outlook include a slower-than-expected distribution of several COVID-19 vaccines either approved or in development for use across the globe, a weaker-than-expected U.S. economic recovery and a re-surfacing of tariff disputes and protectionism which would reduce global trade volume.

The U.S. multi-suite residential purpose-built rental sector performance of 2020 was largely positive, despite the negative impacts of the COVID-19 pandemic on the national economy and job market. Renter households continued to prioritize rent payments, with the National Multifamily Housing Council reporting 93.8% of rent payments fully or partially made by the end of December 2020. The ability of rental households to meet their rent obligations was bolstered by the recent renewal of the pandemic relief bill. The bill continued to support most U.S. households with $600 direct payments and an additional $300 in weekly unemployment benefits. Despite the negative effects of the pandemic, rents continued to rise in lower-cost metros across the country. Investors were somewhat more selective when assessing potential acquisitions during 2020, given largely positive, but uneven multi-suite residential rental sector performance characteristics.

The U.S. multi-suite residential sector is expected to post increasingly stable and generally positive performance characteristics in 2021. By the second half of the year most U.S. residents will have been able to access a COVID-19 vaccine. At the same time the national economic recovery will strengthen, with a 4.7% increase in economic output projected for 2021 by Oxford Economics. The combination of economic growth and job growth will support moderately stronger rental demand by the second half of the year. In turn, we expect vacancy will begin to stabilize, having risen steadily over the past year. The reopening of the economy in 2021 and more stable outlook will boost investment activity in the multi-suite residential rental sector, following a substantial reduction in transaction closing volume in 2020. By the end of 2021, rental market and investment market conditions are expected to have improved, which will draw an increased volume of capital to the asset class.

The REIT benefits from conservative financial leverage, a low payout ratio and access to debt and equity markets at a reasonable cost. The REIT's asset class and regional diversification should also help it withstand the economic challenges that are anticipated in 2021.

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Morguard North American Residential Real Estate Investment Trust (the "REIT"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in unitholders' equity and consolidated statements of 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, 2020 and 2019, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of real estate properties

Key Audit Matter	How our audit addressed the key audit matter
Morguard North American Residential REIT's ("the REIT") investment property portfolio is comprised of income-producing properties and properties under development with a fair value of $2.9 billion which represents 95% of total assets for the year ended December 31, 2020. Fair value of real estate properties is based on external and internal valuations, carried out by third party and certified staff appraisers respectively, using recognized valuation techniques. The valuation methodology for these investment properties is primarily based on an income approach, utilizing the direct capitalization method. Recent real estate transactions with characteristics and locations similar to the REIT's assets are also considered when developing the valuations. Note 2 of the consolidated financial statements describes the accounting policy for investment properties, including the valuation method and valuation inputs. Note 4 of the consolidated financial statements discloses the sensitivity of the fair value of investment properties to a change in capitalization rates. The valuation of the REIT's investment property portfolio is a key audit matter given the inherently subjective nature of significant assumptions including capitalization rates, and assumptions involved in determining stabilized net operating income, including vacancy and rental income. These assumptions are influenced by property specific characteristics including location, type and quality of the properties.	With the assistance of our real estate valuation specialists, we evaluated the appropriateness of the underlying valuation methodology, and performed the following audit procedures, among others: • We assessed the competence and objectivity of management's valuation team, and any third-party appraisers engaged, by reviewing the qualifications and expertise of the individuals involved in the preparation and review of the valuations. • We selected a sample of properties where either the fair value change from prior year or significant assumptions fell outside our expectations, based on our understanding of the geographical real estate market for the specific asset type. For this sample of investment properties, we evaluated the significant assumptions, including capitalization rates and stabilized net operating income including vacancy and rental income, by comparison to the expected real estate market benchmark range for similar assets, in similar locations. We also considered whether there were any additional asset-specific characteristics that may impact the significant assumptions utilized and that these were appropriately considered in the overall assessment of fair value. • We evaluated the REIT's critical accounting policies and related disclosures in the consolidated financial statements to assess appropriateness and conformity with IFRS.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the REIT audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 16, 2021

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31	Note	2020	2019
ASSETS			
Non-current assets			
Real estate properties	4	**$2,941,241**	$2,872,658
Equity-accounted investments	5	**93,005**	106,521
		3,034,246	2,979,179
Current assets			
Morguard Facility	9	**—**	19,972
Amounts receivable		**5,649**	3,332
Prepaid expenses		**7,809**	4,106
Restricted cash		**9,350**	9,090
Cash		**27,304**	17,748
		50,112	54,248
		$3,084,358	$3,033,427
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable and Class C LP Units	6	**$1,102,235**	$1,200,587
Convertible debentures	7	**85,165**	86,398
Class B LP Units	8	**274,708**	318,455
Deferred income tax liabilities	16	**109,659**	114,763
Accounts payable and accrued liabilities	10	**9,103**	9,286
		1,580,870	1,729,489
Current liabilities			
Mortgages payable and Class C LP Units	6	**107,190**	29,718
Morguard Facility	9	**6,600**	—
Accounts payable and accrued liabilities	10	**42,079**	48,427
		155,869	78,145
Total liabilities		**1,736,739**	1,807,634
EQUITY			
Unitholders' equity		**1,270,129**	1,136,363
Non-controlling interest		**77,490**	89,430
Total equity		**1,347,619**	1,225,793
		$3,084,358	$3,033,427

Commitments and contingencies	20		

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	2020	2019
Revenue from real estate properties	12	**$248,683**	$245,596
Property operating expenses			
Property operating costs		**(63,762)**	(62,898)
Realty taxes		**(31,770)**	(31,860)
Utilities		**(17,618)**	(17,976)
Net operating income		**135,533**	132,862
Other expenses (income)			
Interest expense	13	**62,111**	65,812
Trust expenses	14	**15,237**	14,343
Equity loss (income) from investments	5	**9,869**	(97)
Foreign exchange loss		**220**	854
Other expense (income)		**(431)**	(1,505)
Income before fair value changes and income taxes		**48,527**	53,455
Fair value gain on real estate properties, net	4	**72,238**	55,977
Fair value gain (loss) on Class B LP Units	8	**43,747**	(23,079)
Income before income taxes		**164,512**	86,353
Provision for (recovery of) income taxes	16		
Current		**131**	132
Deferred		**(2,424)**	6,093
		(2,293)	6,225
Net income for the year		**$166,805**	$80,128
Net income (loss) attributable to:			
Unitholders		**$175,216**	$76,815
Non-controlling interest		**(8,411)**	3,313
		$166,805	$80,128

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the years ended December 31	2020	2019
Net income for the year	**$166,805**	$80,128
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to net income:		
Unrealized foreign currency translation loss	**(16,110)**	(38,799)
Total comprehensive income for the year	**$150,695**	$41,329
Total comprehensive income (loss) attributable to:		
Unitholders	**$160,426**	$42,313
Non-controlling interest	**(9,731)**	(984)
	$150,695	$41,329

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, 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		99,591	—	—	—	99,591	—	99,591
Issue of Units - DRIP		563	—	(563)	—	—	—	—
Distributions		—	—	(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
Changes during the year:								
Net income (loss)		**—**	**—**	**175,216**	**—**	**175,216**	**(8,411)**	**166,805**
Other comprehensive loss		**—**	**—**	**—**	**(14,790)**	**(14,790)**	**(1,320)**	**(16,110)**
Issue of Units - DRIP	11(d)	**625**	**—**	**(625)**	**—**	**—**	**—**	**—**
Distributions	11(d)	**—**	**—**	**(26,660)**	**—**	**(26,660)**	**(2,209)**	**(28,869)**
Unitholders' equity, December 31, 2020		**$469,210**	**$48,762**	**$682,824**	**$69,333**	**$1,270,129**	**$77,490**	**$1,347,619**

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the years ended December 31	Note	2020	2019
OPERATING ACTIVITIES			
Net income		**$166,805**	$80,128
Add (deduct) items not affecting cash	17(a)	**(105,641)**	(19,842)
Additions to tenant incentives		**(777)**	(608)
Distributions from equity-accounted investments	5	**1,780**	—
Net change in non-cash operating assets and liabilities	17(b)	**(12,039)**	2,805
Cash provided by operating activities		**50,128**	62,483
INVESTING ACTIVITIES			
Additions to income producing properties	4	**(22,113)**	(30,628)
Additions to property under development	4	**(5,951)**	(6,995)
Proceeds from sale of income producing properties, net	4	**—**	38,626
Investment in equity-accounted investments	5	**—**	(68,834)
Cash used in investing activities		**(28,064)**	(67,831)
FINANCING ACTIVITIES			
Proceeds from issuance of Units, net of costs	11(d)	**—**	99,591
Proceeds from new mortgages	6	**25,151**	109,302
Financing cost on new mortgages		**(605)**	(1,434)
Repayment of mortgages and Class C LP Units			
Repayment on maturity	6	**(8,757)**	(101,555)
Repayment due to mortgage extinguishment		**—**	(11,331)
Principal instalment repayments		**(24,480)**	(22,640)
Increase in subsidiary ownership interest		**—**	(8,014)
Proceeds from Morguard Facility		**61,100**	105,212
Repayment of Morguard Facility		**(34,676)**	(139,391)
Distributions to Unitholders		**(26,660)**	(23,601)
Distributions to non-controlling interest		**(2,209)**	(3,527)
Decrease (increase) in restricted cash		**(436)**	3,460
Cash provided by (used in) financing activities		**(11,572)**	6,072
Net increase in cash during the year		**10,492**	724
Net effect of foreign currency translation on cash balance		**(936)**	238
Cash, beginning of year		**17,748**	16,786
Cash, end of year		**$27,304**	$17,748

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 2020 and 2019
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, 2020, Morguard Corporation ("Morguard"), the parent company of the REIT, holds an indirect 44.7% (2019 - 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 16, 2021.

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

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 investment 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 is 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:

	2020	2019
Canadian dollar to United States dollar exchange rates:		
- As at December 31	**$0.7854**	$0.7699
- Average for the year ended December 31	**0.7454**	0.7536
United States dollar to Canadian dollar exchange rates:		
- As at December 31	**1.2732**	1.2988
- Average for the year ended December 31	**1.3415**	1.3269

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 4.

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 4.

NOTE 3

SUBSIDIARIES WITH NON-CONTROLLING INTEREST

As at December 31, 2020, 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	2020	2019
Non-current assets	**$340,963**	$372,626
Current assets	**1,883**	1,035
Total assets	**$342,846**	$373,661
Non-current liabilities	**$191,033**	$195,398
Current liabilities	**5,428**	5,251
Total liabilities	**$196,461**	$200,649
Equity	**$146,385**	$173,012
Non-controlling interest	**$71,729**	$84,776

For the years ended December 31	2020	2019
Revenue from income producing properties	**$28,004**	$28,649
Expenses	**(21,029)**	(20,764)
Fair value loss on income producing properties	**(26,653)**	(3,524)
Net income (loss) for the year	**($19,678)**	$4,361
Non-controlling interest	**($9,642)**	$2,137

For the years ended December 31	2020	2019
Cash provided by operating activities	**$7,525**	$8,666
Cash used in investing activities	**(1,655)**	(2,612)
Cash used in financing activities	**(4,983)**	(7,415)
Net increase (decrease) in cash during the year	**$887**	($1,361)

NOTE 4
REAL ESTATE PROPERTIES

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

As at December 31			2020	2019
	Income Producing Properties	Property Under Development	Total	Total
Balance, beginning of year	**$2,849,895**	**$22,763**	**$2,872,658**	$2,932,835
Additions:				
Capital expenditures	**22,113**	**—**	**22,113**	30,628
Development expenditures	**—**	**5,951**	**5,951**	6,995
Dispositions	**—**	**—**	**—**	(63,809)
Fair value gain, net	**72,238**	**—**	**72,238**	55,569
Foreign currency translation	**(32,073)**	**535**	**(31,538)**	(81,608)
Transfer	**29,249**	**(29,249)**	**—**	—
Other	**(181)**	**—**	**(181)**	(7,952)
Balance, end of year	**$2,941,241**	**$—**	**$2,941,241**	$2,872,658

Transactions completed during the year ended December 31, 2020

Property Under Development

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

Transactions completed during the year ended December 31, 2019

Dispositions

The following table presents a summary of the REIT's dispositions and their proceeds, including closing costs.

Date of Disposition	Ownership	Location	Suites	Proceeds	Net proceeds(1)
February 1, 2019	100%	Shreveport, LA	194	$13,510	$6,530
March 19, 2019	100%	Lafayette, LA	192	15,062	5,645
March 19, 2019	100%	New Iberia, LA	148	8,208	2,274
March 27, 2019	100%	Gretna, LA	261	22,601	11,270
April 30, 2019	100%	Harahan, LA	48	4,428	1,576
			843	$63,809	$27,295

(1) Net of mortgage repayment ($11,331) and mortgages assumed by the purchaser ($25,183)

As at December 31, 2020, and 2019, 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.

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

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

As at December 31, 2020, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 3.8% to 6.8% (2019 - 4.0% to 6.8%) applied to a stabilized net operating income of $132,725 (2019 - $133,706), resulting in an overall weighted average capitalization rate of 4.5% (2019 - 4.7%).

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

	December 31, 2020					December 31, 2019				
	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%**	**3.8%**	**3.9%**	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%	95.0%	5.3%	5.0%	5.0%
Louisiana	**95.0%**	**95.0%**	**6.8%**	**5.5%**	**6.0%**	95.0%	95.0%	6.8%	5.5%	6.0%
Illinois	**95.0%**	**95.0%**	**4.5%**	**4.5%**	**4.5%**	95.0%	95.0%	4.5%	4.5%	4.5%
Georgia	**96.0%**	**95.0%**	**5.5%**	**5.0%**	**5.4%**	96.0%	95.0%	5.5%	5.0%	5.4%
Florida	**96.0%**	**93.5%**	**6.5%**	**4.8%**	**5.5%**	96.0%	93.5%	6.5%	4.8%	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%

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, 2020 would decrease by $154,512 or increase by $173,015, respectively.

NOTE 5
EQUITY-ACCOUNTED INVESTMENTS

The following is the REIT's equity-accounted investments as at December 31, 2020, and 2019:

			REIT's Ownership		Carrying Value	
Property	Principal Place of Business	Type	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
The Fenestra	Rockville, MD	Joint Venture	**50%**	50%	**$40,671**	$41,147
Marquee at Block 37	Chicago, IL	Joint Venture	**50%**	50%	**52,334**	65,374
					$93,005	$106,521

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

As at December 31	2020	2019
Balance, beginning of year	**$106,521**	$40,859
Additions	**—**	68,834
Distributions received	**(1,780)**	—
Share of net income (loss)	**(9,869)**	97
Foreign exchange loss	**(1,867)**	(3,269)
Balance, end of year	**$93,005**	$106,521

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

As at December 31	2020	2019
Non-current assets	**$483,817**	$515,235
Current assets	**8,525**	5,501
Total assets	**$492,342**	$520,736
Non-current liabilities	**$294,098**	$304,725
Current liabilities	**12,234**	2,970
Total liabilities	**$306,332**	$307,695
Net assets	**$186,010**	$213,041
Equity-accounted investments	**$93,005**	$106,521

For the years ended December 31	2020	2019
Revenue	**$38,927**	$15,253
Expenses	**(31,025)**	(12,289)
Fair value loss on income producing properties	**(27,639)**	(2,771)
Net income (loss) for the year	**($19,737)**	$193
Income (loss) in equity-accounted investments	**($9,869)**	$97

NOTE 6
MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at December 31	2020			2019
	Mortgages Payable	**Class C LP Units**	**Total**	Mortgages Payable and Class C LP Units
Principal balance of mortgages	**$1,135,377**	**$75,086**	**$1,210,463**	$1,233,548
Deferred financing costs	**(9,896)**	**(184)**	**(10,080)**	(12,138)
Present value of tax payment on Class C LP Units	**—**	**9,042**	**9,042**	8,895
	$1,125,481	**$83,944**	**$1,209,425**	$1,230,305
Current	**$23,246**	**$83,944**	**$107,190**	$29,718
Non-current	**1,102,235**	**—**	**1,102,235**	1,200,587
	$1,125,481	**$83,944**	**$1,209,425**	$1,230,305
Range of interest rates	**2.03−4.11%**	**3.97%**	**2.03−4.11%**	2.25−4.25%
Weighted average interest rate	**3.42%**	**3.97%**	**3.45%**	3.48%
Weighted average term to maturity (years)	**5.1**	**0.5**	**4.8**	5.6
Fair value of mortgages and Class C LP Units	**$1,215,688**	**$76,480**	**$1,292,168**	$1,261,120

On June 3, 2020, the REIT completed the refinancing of a multi-suite residential property located in Mississauga, Ontario, in the amount of $25,151 at an interest rate of 2.03% and for a term of 10 years. The maturing mortgage amounted to $8,757 and had an interest rate of 4.25%.

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.

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

The aggregate principal repayments and balances maturing of the mortgages payable and the Class C LP Units as at December 31, 2020, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Rate
2021	$25,249	$75,280	$100,529	3.97%
2022	27,153	67,223	94,376	3.76%
2023	24,388	145,558	169,946	3.47%
2024	21,508	140,446	161,954	3.28%
2025	14,463	174,152	188,615	3.25%
Thereafter	23,381	471,662	495,043	3.45%
	$136,142	$1,074,321	$1,210,463	3.45%

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

NOTE 7
CONVERTIBLE DEBENTURES
Convertible debentures consist of the following:

As at December 31	2020	2019
4.50% convertible unsecured subordinated debentures	**$85,223**	$85,223
Fair value of conversion option	**1,577**	3,472
Unamortized financing costs	**(1,635)**	(2,297)
	$85,165	$86,398

For the year ended December 31, 2020, interest on the convertible debentures amounting to $3,848 (2019 - $3,848) is included in interest expense (Note 13). As at December 31, 2020, $980 (2019 - $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, 2020, and 2019, $85,500 of the face value of the 2018 Debentures were outstanding.

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

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

NOTE 8
CLASS B LP UNITS
On April 18, 2012, the REIT issued 17,223,090 Class B LP Units to Morguard for $172,231. The Class B LP Units are non-transferable, except under certain circumstances, but are exchangeable on a one-for-one basis into Units of the REIT at any time at the option of the holder. Prior to such exchange, distributions are made on the Class B LP Units in an amount equivalent to the distribution that would have been made had the Units of the REIT been issued. Each Class B LP Unit was accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of the Unitholders. There is no value assigned to the Special Voting Units.

As at December 31, 2020, 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 $274,708 (2019 - $318,455) and a corresponding fair value gain for the year ended December 31, 2020 of $43,747 (2019 - loss of $23,079).

For the year ended December 31, 2020, distributions on Class B LP Units amounting to $12,049 (2019 - $11,756) are included in interest expense (Note 13).

As at December 31, 2020, and 2019, there were 17,223,090 Class B LP Units issued and outstanding.

NOTE 9

MORGUARD FACILITY

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

As 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.

As at December 31, 2020, the amount payable under the Morguard Facility was $6,600. 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.

During the year ended December 31, 2020, the REIT earned net interest income of $274 (2019 - $1,404) on the Morguard Facility.

NOTE 10

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at December 31	2020	2019
Accounts payable and accrued liabilities	**$30,936**	$37,164
Tenant deposits	**11,143**	11,263
Lease liability	**9,103**	9,286
	$51,182	$57,713
Current	**$42,079**	$48,427
Non-current	**9,103**	9,286
	$51,182	$57,713

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

As at December 31	2020	2019
Within 12 months	**$435**	$444
2 to 5 years	**1,826**	1,793
Over 5 years	**10,994**	11,729
Total minimum lease payments	**13,255**	13,966
Less: Future interest costs	**(4,152)**	(4,680)
Present value of minimum lease payments	**$9,103**	$9,286

NOTE 11
UNITHOLDERS' EQUITY
(a) Units
The REIT is authorized to issue an unlimited number of Units. Each Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in the distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The Unitholders have the right to require the REIT to redeem their Units on demand subject to certain conditions. The Units have no par value. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption will cease and the holder thereof will be entitled to receive a price per Unit ("Redemption Price") as determined by a formula outlined in the Declaration of Trust. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

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

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

There were no repurchases of Units under the REIT's NCIB plan for the years ended December 31, 2020, and 2019.

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

(d) Units Outstanding
The following table summarizes the changes in Units for the period from December 31, 2018, to December 31, 2020:

Issued and Fully Paid Units	Units	Amount
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
Units issued under the DRIP	**40,125**	**625**
Balance, December 31, 2020	**39,019,827**	**$469,210**

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, were $99,591. Morguard purchased 1,269,000 of the Units offered amounting to $25,063.

Total distributions declared during the year ended December 31, 2020, amounted to $27,285, or $0.6996 per Unit (2019 - $24,527, or $0.6826 per Unit), including distributions payable of $2,275 that were declared on December 15, 2020, and paid on January 15, 2021. On January 15, 2021, the REIT declared a distribution of $0.0583 per Unit paid on February 16, 2021. On February 16, 2021, the REIT declared a distribution of $0.0583 per Unit payable on March 15, 2021.

(e) Distribution Reinvestment Plan

Under the REIT's Distribution Reinvestment Plan ("DRIP"), Unitholders can elect to reinvest cash distributions into additional Units at a weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution. During the year ended December 31, 2020, the REIT issued 40,125 Units under the DRIP (2019 - 30,622 Units).

(f) Accumulated Other Comprehensive Income

The accumulated other comprehensive income consists of the following amounts:

As at December 31	2020	2019
Unrealized foreign currency translation gain	**$69,333**	$84,123
Balance, end of year	**$69,333**	$84,123

NOTE 12
RENTAL INCOME

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

For the years ended December 31	2020	2019
Rental income	**$119,853**	$117,118
Property management and ancillary income	**91,349**	92,317
Property tax and insurance	**37,481**	36,161
	$248,683	$245,596

NOTE 13
INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31	2020	2019
Interest on mortgages	**$40,707**	$41,009
Interest and tax payment on Class C LP Units	**3,683**	3,777
Interest on the convertible debentures (Note 7)	**3,848**	3,848
Interest on lease liability	**458**	413
Amortization of deferred financing costs	**2,599**	2,819
Amortization of deferred financing costs on the convertible debentures	**662**	626
Fair value loss (gain) on conversion option on the convertible debentures	**(1,895)**	1,003
Loss on extinguishment of mortgages payable	**—**	561
	50,062	54,056
Distributions on Class B LP Units (Note 8)	**12,049**	11,756
	$62,111	$65,812

NOTE 14
TRUST EXPENSES

The components of trust expenses are as follows:

For the years ended December 31	2020	2019
Asset management fees and distributions	**$12,536**	$11,908
Professional fees	**1,096**	1,093
Public company expenses	**703**	796
Other	**902**	546
	$15,237	$14,343

NOTE 15
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 6, 7, 8, 9 and 11(d), related party transactions also include the following:

Agreements with Morguard Affiliates

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

Property Management

Pursuant to the Agreements, Morguard's affiliates administer the day-to-day operations of the Canadian and U.S. income producing properties, for which Morguard's affiliates receive partnership fees and distributions equal to 3.5% of gross property revenue of the income producing properties, payable monthly. For the year ended December 31, 2020, fees and distributions amounting to $9,129 (2019 - $8,583) are included in property operating costs and equity income (loss) from investments. As at December 31, 2020, $619 (2019 - $595) 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, 2020, fees and distributions amounting to $13,211 (2019 - $12,154) are included in trust expenses and equity income (loss) from investments. As at December 31, 2020, $1,635 (2019 - $5,711) 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, 2020, fees relating to acquisition services amounted to $nil (2019 - $1,315).

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, 2020, fees relating to financing services amounted to $37 (2019 - $331) 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, 2020, fees relating to development services amounting to $52 (2019 - $72) are included in property under development. As at December 31, 2020, $8 (2019 - $22) is included in accounts payable and accrued liabilities.

Other Services

As at December 31, 2020, the REIT had its portfolio appraised by Morguard's appraisal division. For the year ended December 31, 2020, fees relating to appraisal services amounted to $198 (2019 - $216) and are included in trust expenses.

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 16

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	2020	2019
Current income taxes	**$131**	$132
Deferred income taxes		
Impact of foreign tax rates	**($3,250)**	$9,240
Impact of change in foreign tax rate	**669**	(2,052)
Recognition of the benefit of tax losses	**—**	(1,151)
Other	**157**	56
	($2,424)	$6,093
Income tax expense (recovery)	**($2,293)**	$6,225

(d) The Major Components of Deferred Income Tax Liabilities

As at December 31	2020	2019
Real estate properties	**$117,647**	$120,905
Net operating losses	**(7,115)**	(3,014)
Interest expense limitation	**(756)**	(3,018)
Other	**(117)**	(110)
Total net deferred income tax liabilities	**$109,659**	$114,763

(e) The REIT's Tax Losses

As at December 31, 2020, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$34,067 (2019 - US$29,234) 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, 2020, the U.S. subsidiaries of the REIT have total net operating losses of approximately US$15,256 (2019 - US$5,782) of which deferred tax assets were recognized. The net operating losses can be carried forward indefinitely.

As at December 31, 2020, the REIT's U.S. subsidiaries have a total of US$2,201 (2019 - US$9,206) of unutilized interest expense deductions on which deferred tax assets were recognized.

NOTE 17

CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

For the years ended December 31	2020	2019
Fair value gain on real estate properties, net	**($72,238)**	($55,569)
Fair value loss (gain) on Class B LP Units	**(43,747)**	23,079
Fair value loss (gain) on conversion option on the convertible debentures	**(1,895)**	1,003
Equity loss (income) from investments	**9,869**	(97)
Amortization of deferred financing - mortgages	**2,298**	2,517
Amortization of deferred financing - Class C LP Units	**301**	302
Amortization of deferred financing - convertible debentures	**662**	626
Present value adjustment of tax liability on Class C LP Units	**575**	566
Loss on extinguishment of mortgages payable	**—**	561
Amortization of tenant incentives	**958**	1,077
Deferred income taxes	**(2,424)**	6,093
	($105,641)	($19,842)

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

For the years ended December 31	2020	2019
Amounts receivable	**($2,365)**	$188
Prepaid expenses	**(3,776)**	(118)
Accounts payable and accrued liabilities	**(5,898)**	2,735
	($12,039)	$2,805

(c) Supplemental Cash Flow Information

For the years ended December 31	2020	2019
Interest paid	**$47,756**	$48,344

(d) Reconciliation of Liabilities Arising from Financing Activities

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

As at December 31, 2020	Mortgages Payable and Class C LP Units	Convertible Debentures	Morguard Facility	Lease Liability	Total
Balance, beginning of year	**$1,230,305**	**$86,398**	**($19,972)**	**$9,286**	**$1,306,017**
Repayments	**(24,480)**	**—**	**(34,676)**	**—**	**(59,156)**
New financing, net	**24,546**	**—**	**61,100**	**—**	**85,646**
Lump-sum repayments	**(8,757)**	**—**	**—**	**—**	**(8,757)**
Non-cash changes	**3,174**	**(1,233)**	**—**	**—**	**1,941**
Foreign exchange	**(15,363)**	**—**	**148**	**(183)**	**(15,398)**
Balance, end of year	**$1,209,425**	**$85,165**	**$6,600**	**$9,103**	**$1,310,293**

NOTE 18

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, 2020, and 2019, is summarized below:

As at December 31	2020	2019
Mortgages payable, principal balance	**$1,135,377**	$1,154,960
Class C LP Units and present value of tax payment, principal balance	**84,128**	87,483
Convertible debentures, face value	**85,500**	85,500
Morguard Facility	**6,600**	—
Lease liability	**9,103**	9,286
Class B LP Units	**274,708**	318,455
Unitholders' equity	**1,270,129**	1,136,363
	$2,865,545	$2,792,047

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	2020	2019
Total debt to gross book value	70%	**42.8%**	44.1%
Floating-rate debt to gross book value	20%	**0.2%**	—%

NOTE 19

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, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, as at December 31, 2020, 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 $1,215,688 and $76,480 (2019 - $1,181,206 and $79,914), 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, 2020, the fair value of the convertible debentures before deferred financing costs has been estimated at $88,339 (2019 - $91,400), compared with the carrying value of $85,223 (2019 - $85,223).

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

The REIT's convertible debentures have no restrictive covenants.

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

	December 31, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$2,941,241**	$—	$—	$2,872,658
Financial liabilities:						
Class B LP Units	**274,708**	**—**	**—**	318,455	—	—
Conversion option of the convertible debentures	**—**	**1,577**	**—**	—	3,472	—

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, 2020, the REIT had no material 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, 2020, 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, 2020, 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 $822 and a change to other comprehensive income or loss of $30,150.

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$612,115 as at December 31, 2020 (2019 - US$617,630). 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. The REIT utilizes the simplified approach to measure expected credit losses under IFRS 9, which requires the REIT to recognize a lifetime expected credit loss allowance on all receivables at each reporting date and 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	2020	2019
Trade receivables	**$2,492**	$1,310
Less: Allowance for doubtful accounts	**(955)**	(468)
Total trade receivables, net	**$1,537**	$842

(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, 2020, the REIT was holding cash of $27,304 and had access to an additional $93,400 through the Morguard Facility.

NOTE 20
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:

2021	US$342
2022	342
2023	342
2024	355
2025	396
Thereafter	87,792

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 2020, the rental guideline increase was 2.2% (2019 - 1.8%). In September 2020, the Government of Ontario passed legislation to freeze rent in 2021 by setting the rental guideline amount at 0.0%.

NOTE 21

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, 2020			December 31, 2019		
For the years ended	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Revenue from real estate properties	**$94,746**	**$153,937**	**$248,683**	$93,332	$152,264	$245,596
Property operating expenses	**(40,170)**	**(72,980)**	**(113,150)**	(40,409)	(72,325)	(112,734)
Net operating income	**$54,576**	**$80,957**	**$135,533**	$52,923	$79,939	$132,862

	December 31, 2020			December 31, 2019		
As at	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Real estate properties	**$1,414,050**	**$1,527,191**	**$2,941,241**	$1,276,620	$1,596,038	$2,872,658
Mortgages payable and Class C LP Units	**$435,408**	**$774,017**	**$1,209,425**	$434,746	$795,559	$1,230,305

	December 31, 2020			December 31, 2019		
For the years ended	**Canada**	**U.S.**	**Total**	Canada	U.S.	Total
Additions to real estate properties	**$11,329**	**$16,735**	**$28,064**	$14,267	$23,356	$37,623
Fair value gain (loss) on real estate properties	**$126,112**	**($53,874)**	**$72,238**	$60,307	($4,330)	$55,977