



Real Estate Potential. **Realized.**

MORGUARD NORTH AMERICAN
RESIDENTIAL REAL ESTATE
INVESTMENT TRUST

SEPTEMBER 30, 2020

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)

BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	September 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Real estate properties	3	\$3,009,942	\$2,872,658
Equity-accounted investments	4	106,768	106,521
		3,116,710	2,979,179
Current assets			
Morguard Facility	8	—	19,972
Amounts receivable		5,653	3,332
Prepaid expenses		11,068	4,106
Restricted cash		9,169	9,090
Cash		34,615	17,748
		60,505	54,248
		\$3,177,215	\$3,033,427
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable and Class C LP Units	5	\$1,144,907	\$1,200,587
Convertible debentures	6	84,220	86,398
Class B LP Units	7	249,735	318,455
Deferred income tax liabilities		129,323	114,763
Accounts payable and accrued liabilities	9	9,537	9,286
		1,617,722	1,729,489
Current liabilities			
Mortgages payable and Class C LP Units	5	106,889	29,718
Morguard Facility	8	553	—
Accounts payable and accrued liabilities	9	57,442	48,427
		164,884	78,145
Total liabilities		1,782,606	1,807,634
EQUITY			
Unitholders' equity		1,302,687	1,136,363
Non-controlling interest		91,922	89,430
Total equity		1,394,609	1,225,793
		\$3,177,215	\$3,033,427

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF INCOME (LOSS)

In thousands of Canadian dollars

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
Revenue from real estate properties	11	\$62,159	\$61,135	\$187,658	\$184,353
Property operating expenses					
Property operating costs		(16,358)	(16,205)	(47,369)	(47,207)
Realty taxes		(2,617)	(2,775)	(29,864)	(30,000)
Utilities		(4,388)	(4,117)	(13,084)	(13,282)
Net operating income		38,796	38,038	97,341	93,864
Other expenses (income)					
Interest expense	12	15,794	18,114	45,562	52,124
Trust expenses	13	3,628	3,433	11,659	10,633
Equity loss (income) from investments	4	4,109	(37)	2,546	(2,165)
Foreign exchange loss (gain)		446	(207)	(517)	486
Other expense (income)	14	460	(479)	(632)	(630)
Income before fair value changes and income taxes		14,359	17,214	38,723	33,416
Fair value gain on real estate properties, net	3	41,141	9,842	74,228	68,427
Fair value gain (loss) on Class B LP Units	7	1,550	(24,629)	68,720	(46,502)
Income before income taxes		57,050	2,427	181,671	55,341
Provision for income taxes					
Current		30	33	98	99
Deferred		3,548	3,801	11,677	11,011
		3,578	3,834	11,775	11,110
Net income (loss) for the period		\$53,472	(\$1,407)	\$169,896	\$44,231
Net income (loss) attributable to:					
Unitholders		\$51,908	(\$1,950)	\$167,979	\$42,239
Non-controlling interest		1,564	543	1,917	1,992
		\$53,472	(\$1,407)	\$169,896	\$44,231

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net income (loss) for the period	\$53,472	(\$1,407)	\$169,896	\$44,231
OTHER COMPREHENSIVE INCOME				
Item that may be reclassified subsequently to net income (loss):				
Unrealized foreign currency translation gain (loss)	(17,807)	9,350	20,717	(23,367)
Total comprehensive income for the period	\$35,665	\$7,943	\$190,613	\$20,864
Total comprehensive income (loss) attributable to:				
Unitholders	\$35,965	\$6,385	\$186,318	\$21,504
Non-controlling interest	(300)	1,558	4,295	(640)
	\$35,665	\$7,943	\$190,613	\$20,864

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Units	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Unitholders' Equity	Non-controlling Interest	Total Equity
Unitholders' equity, December 31, 2018		\$368,431	\$48,762	\$482,605	\$118,625	\$1,018,423	\$109,438	\$1,127,861
Changes during the period:								
Net income		—	—	42,239	—	42,239	1,992	44,231
Other comprehensive loss		—	—	—	(20,735)	(20,735)	(2,632)	(23,367)
Increase in subsidiary ownership interest		—	—	—	—	—	(15,497)	(15,497)
Issue of Units		99,591	—	—	—	99,591	—	99,591
Issue of Units - DRIP		418	—	(418)	—	—	—	—
Distributions		—	—	(17,359)	—	(17,359)	(2,648)	(20,007)
Unitholders' equity, September 30, 2019		\$468,440	\$48,762	\$507,067	\$97,890	\$1,122,159	\$90,653	\$1,212,812
Changes during the period:								
Net income		—	—	34,576	—	34,576	1,321	35,897
Other comprehensive loss		—	—	—	(13,767)	(13,767)	(1,665)	(15,432)
Issue of Units - DRIP		145	—	(145)	—	—	—	—
Distributions		—	—	(6,605)	—	(6,605)	(879)	(7,484)
Unitholders' equity, December 31, 2019		\$468,585	\$48,762	\$534,893	\$84,123	\$1,136,363	\$89,430	\$1,225,793
Changes during the period:								
Net income		—	—	167,979	—	167,979	1,917	169,896
Other comprehensive income		—	—	—	18,339	18,339	2,378	20,717
Issue of Units - DRIP	10(d)	467	—	(467)	—	—	—	—
Distributions	10(d)	—	—	(19,994)	—	(19,994)	(1,803)	(21,797)
Unitholders' equity, September 30, 2020		\$469,052	\$48,762	\$682,411	\$102,462	\$1,302,687	\$91,922	\$1,394,609

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
OPERATING ACTIVITIES					
Net income (loss)		\$53,472	(\$1,407)	\$169,896	\$44,231
Add (deduct) items not affecting cash	16(a)	(39,641)	16,667	(121,995)	442
Additions to tenant incentives		(200)	(483)	(459)	(739)
Net change in non-cash operating assets and liabilities	16(b)	(1,950)	(3,636)	(6,490)	(6,549)
Cash provided by operating activities		11,681	11,141	40,952	37,385
INVESTING ACTIVITIES					
Additions to income producing properties	3	(4,887)	(8,474)	(15,430)	(18,967)
Additions to property under development	3	(1,875)	(1,923)	(5,183)	(4,560)
Proceeds from sale of income producing properties, net		—	—	—	38,626
Cash provided by (used in) investing activities		(6,762)	(10,397)	(20,613)	15,099
FINANCING ACTIVITIES					
Proceeds from issuance of Units, net of costs	10(d)	—	99,591	—	99,591
Proceeds from new mortgages	5	—	—	25,151	—
Financing cost on new mortgages		—	—	(605)	—
Repayment of mortgages and Class C LP Units					
Repayment on maturity	5	—	—	(8,757)	—
Repayment due to mortgage extinguishment		—	—	—	(11,331)
Principal instalment repayments		(6,086)	(5,553)	(18,249)	(16,778)
Increase in subsidiary ownership interest		—	—	—	(8,014)
Proceeds from Morguard Facility		10,700	7,500	32,900	37,200
Repayment of Morguard Facility		—	(98,505)	(12,000)	(128,796)
Distributions to Unitholders		(6,659)	(5,882)	(19,994)	(17,062)
Distributions to non-controlling interest		(417)	(842)	(1,803)	(2,648)
Decrease (increase) in restricted cash		912	(1,133)	164	(1,065)
Cash used in financing activities		(1,550)	(4,824)	(3,193)	(48,903)
Net increase (decrease) in cash during the period		3,369	(4,080)	17,146	3,581
Net effect of foreign currency translation on cash balance		(98)	65	(279)	77
Cash, beginning of period		31,344	24,459	17,748	16,786
Cash, end of period		\$34,615	\$20,444	\$34,615	\$20,444

See accompanying notes to the condensed consolidated financial statements.

NOTES

For the three and nine months ended September 30, 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 September 30, 2020, Morguard Corporation (“Morguard”), the parent company of the REIT, holds an indirect 44.8% interest through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and thus do not contain all the disclosures applicable to the annual audited consolidated financial statements.

The condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on October 27, 2020.

These condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements and should be read in conjunction with the most recent annual audited consolidated financial statements which include the significant accounting policies most affected by estimates and judgments.

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 (which is primarily influenced by revenue growth, vacancy rates, inflation rates and operating costs) could potentially be impacted, which ultimately impact the underlying valuation of the REIT’s real estate properties and equity-accounted investments.

Foreign Exchange

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

	2020	2019
Canadian dollar to United States dollar exchange rates:		
- As at September 30	\$0.7497	\$0.7551
- As at December 31	—	0.7699
- Average for the three months ended September 30	0.7507	0.7573
- Average for the nine months ended September 30	0.7385	0.7523
United States dollar to Canadian dollar exchange rates:		
- As at September 30	1.3339	1.3243
- As at December 31	—	1.2988
- Average for the three months ended September 30	1.3321	1.3204
- Average for the nine months ended September 30	1.3541	1.3292

NOTE 3

REAL ESTATE PROPERTIES

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

As at	September 30, 2020		December 31, 2019	
	Income Producing Properties	Property Under Development	Total	Total
Balance, beginning of period	\$2,849,895	\$22,763	\$2,872,658	\$2,932,835
Additions:				
Capital expenditures	15,430	—	15,430	30,628
Development expenditures	—	5,183	5,183	6,995
Dispositions	—	—	—	(63,809)
Fair value gain, net	74,228	—	74,228	55,569
Foreign currency translation	42,263	538	42,801	(81,608)
Other	(358)	—	(358)	(7,952)
Balance, end of period	\$2,981,458	\$28,484	\$3,009,942	\$2,872,658

As at September 30, 2020, and December 31, 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.

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

As at September 30, 2020, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 4.0% to 6.8% (December 31, 2019 - 4.0% to 6.8%), resulting in an overall weighted average capitalization rate of 4.7% (December 31, 2019 - 4.7%).

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

	September 30, 2020 Capitalization Rates			December 31, 2019 Capitalization Rates		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Canada						
Alberta	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Ontario	4.5%	4.0%	4.2%	4.5%	4.0%	4.2%
United States						
Colorado	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Texas	5.3%	5.0%	5.0%	5.3%	5.0%	5.0%
Louisiana	6.8%	5.5%	6.0%	6.8%	5.5%	6.0%
Illinois	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Georgia	5.5%	5.0%	5.4%	5.5%	5.0%	5.4%
Florida	6.5%	4.8%	5.5%	6.5%	4.8%	5.5%
North Carolina	5.3%	5.0%	5.1%	5.3%	5.0%	5.1%
Virginia	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%

Fair values are most sensitive to changes in capitalization rates and stabilized net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the real estate properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points (assuming no change to stabilized net operating income), the value of the real estate properties as at September 30, 2020 would decrease by \$151,241 or increase by \$168,559, respectively.

NOTE 4

EQUITY-ACCOUNTED INVESTMENTS

The following is the REIT's equity-accounted investments as at September 30, 2020, and December 31, 2019:

Property	Principal Place of Business	Type	REIT's Ownership		Carrying Value	
			September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
The Fenestra	Rockville, MD	Joint Venture	50%	50%	\$43,390	\$41,147
Marquee at Block 37	Chicago, IL	Joint Venture	50%	50%	63,378	65,374
					\$106,768	\$106,521

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

As at	September 30, 2020	December 31, 2019
Balance, beginning of period	\$106,521	\$40,859
Additions	—	68,834
Share of net income (loss)	(2,546)	97
Foreign exchange gain (loss)	2,793	(3,269)
Balance, end of period	\$106,768	\$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	September 30, 2020	December 31, 2019
Non-current assets	\$523,404	\$515,235
Current assets	12,569	5,501
Total assets	\$535,973	\$520,736
Non-current liabilities	\$313,143	\$304,725
Current liabilities	9,294	2,970
Total liabilities	\$322,437	\$307,695
Net assets	\$213,536	\$213,041
Equity-accounted investments	\$106,768	\$106,521

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenue	\$9,586	\$3,331	\$30,659	\$10,152
Expenses	(6,181)	(2,046)	(25,025)	(9,121)
Fair value gain (loss) on income producing properties	(11,622)	(1,211)	(10,726)	3,298
Net income (loss) for the period	(\$8,217)	\$74	(\$5,092)	\$4,329
Income (loss) in equity-accounted investments	(\$4,109)	\$37	(\$2,546)	\$2,165

NOTE 5

MORTGAGES PAYABLE AND CLASS C LP UNITS

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

As at	September 30, 2020			December 31, 2019
	Mortgages Payable	Class C LP Units	Total	Mortgages Payable and Class C LP Units
Principal balance of mortgages	\$1,177,799	\$75,975	\$1,253,774	\$1,233,548
Deferred financing costs	(10,724)	(260)	(10,984)	(12,138)
Present value of tax payment on Class C LP Units	—	9,006	9,006	8,895
	\$1,167,075	\$84,721	\$1,251,796	\$1,230,305
Current	\$22,168	\$84,721	\$106,889	\$29,718
Non-current	1,144,907	—	1,144,907	1,200,587
	\$1,167,075	\$84,721	\$1,251,796	\$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)	5.3	0.8	5.1	5.6
Fair value of mortgages and Class C LP Units	\$1,270,274	\$77,662	\$1,347,936	\$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 (the "Retained Debt") and also retained the deferred financing costs associated with the Retained Debt. Morguard remains responsible for the interest and principal payments on the Retained Debt, and the Retained Debt is secured by a charge on the properties. In consideration of the Retained Debt, Morguard received Class C LP Units of the Partnership on which distribution payments are made in an amount expected to be sufficient to permit Morguard to satisfy the amount payable with respect to: (i) principal and interest under the Retained Debt; and (ii) the amount of tax that is due and payable that is reasonably attributable to any distributions on the Class C LP Units.

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

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

The aggregate principal repayments and balances maturing of the mortgages payable and the Class C LP Units as at September 30, 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
2020 (remainder of the year)	\$6,165	\$—	\$6,165	—%
2021	25,686	75,280	100,966	3.97%
2022	27,772	70,428	98,200	3.76%
2023	24,891	151,327	176,218	3.47%
2024	21,974	140,446	162,420	3.29%
Thereafter	39,153	670,652	709,805	3.40%
	\$145,641	\$1,108,133	\$1,253,774	3.45%

NOTE 6

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	September 30, 2020	December 31, 2019
4.50% convertible unsecured subordinated debentures	\$85,223	\$85,223
Fair value of conversion option	810	3,472
Unamortized financing costs	(1,813)	(2,297)
	\$84,220	\$86,398

For the three and nine months ended September 30, 2020, interest on the convertible debentures amounting to \$965 (2019 - \$965) and \$2,878 (2019 - \$2,878), respectively, are included in interest expense (Note 12). As at September 30, 2020, \$11 (December 31, 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 September 30, 2020, and December 31, 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 7

CLASS B LP UNITS

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

As at September 30, 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 \$249,735 (December 31, 2019 - \$318,455) and a corresponding fair value gain for the three months ended September 30, 2020 of \$1,550 (2019 - loss of \$24,629) and a fair value gain for the nine months ended September 30, 2020 of \$68,720 (2019 - loss of \$46,502), respectively.

For the three and nine months ended September 30, 2020, distributions on Class B LP Units amounting to \$3,012 (2019 - \$2,924) and \$9,037 (2019 - \$8,773), respectively, are included in interest expense (Note 12).

As at September 30, 2020, and December 31, 2019, there were 17,223,090 Class B LP Units issued and outstanding.

NOTE 8

MORGUARD FACILITY

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

As at September 30, 2020, the net amount payable under the Morguard Facility was \$553, comprising an amount receivable of US\$10,681 and a payable of \$14,800. 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 three and nine months ended September 30, 2020, the REIT earned net interest income of \$73 (2019 - \$393) and \$254 (2019 - \$585), respectively, on the Morguard Facility.

NOTE 9

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	September 30, 2020	December 31, 2019
Accounts payable and accrued liabilities	\$45,879	\$37,164
Tenant deposits	11,563	11,263
Lease liability	9,537	9,286
	\$66,979	\$57,713
Current	\$57,442	\$48,427
Non-current	9,537	9,286
	\$66,979	\$57,713

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

As at	September 30, 2020	December 31, 2019
Within 12 months	\$115	\$444
2 to 5 years	1,842	1,793
Over 5 years	12,046	11,729
Total minimum lease payments	14,003	13,966
Less: Future interest costs	(4,466)	(4,680)
Present value of minimum lease payments	\$9,537	\$9,286

NOTE 10

UNITHOLDERS' EQUITY

(a) Units

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

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

(b) Normal Course Issuer Bids

On December 18, 2019, the REIT obtained the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 2,953,852 Units, being approximately 10% of the public float of outstanding Units; the program expires on December 20, 2020. The daily repurchase restriction for the Units is 17,964. Additionally, the REIT may purchase up to \$8,050 principal amount of the 2018 Debentures, being 10% of the public float of outstanding 2018 Debentures. The daily repurchase restriction for the 2018 Debentures is \$11. The price that the REIT would pay for any such Units or 2018 Debentures would be the market price at the time of acquisition.

There were no repurchases of Units under the REIT's NCIB plan for the nine months ended September 30, 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 September 30, 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	29,775	467
Balance, September 30, 2020	39,009,477	\$469,052

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 nine months ended September 30, 2020, amounted to \$20,461, or \$0.5247 per Unit (2019 - \$17,777, or \$0.5094 per Unit), including distributions payable of \$2,274 that were declared on September 15, 2020, and paid on October 15, 2020. On October 15, 2020, the REIT declared a distribution of \$0.0583 per Unit payable on November 13, 2020.

(e) Distribution Reinvestment Plan

Under the REIT's Distribution Reinvestment Plan ("DRIP"), Unitholders can elect to reinvest cash distributions into additional Units at a weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution. During the nine months ended September 30, 2020, the REIT issued 29,775 Units under the DRIP (December 31, 2019 - 30,622 Units).

(f) Accumulated Other Comprehensive Income

The accumulated other comprehensive income consists of the following amounts:

As at	September 30, 2020	December 31, 2019
Unrealized foreign currency translation gain	\$102,462	\$84,123
Balance, end of period	\$102,462	\$84,123

NOTE 11

RENTAL INCOME

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Rental income	\$29,206	\$28,613	\$90,814	\$87,540
Property management and ancillary income	23,290	23,248	68,346	69,189
Property tax and insurance	9,663	9,274	28,498	27,624
	\$62,159	\$61,135	\$187,658	\$184,353

NOTE 12

INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Interest on mortgages	\$10,164	\$10,179	\$30,748	\$30,823
Interest and tax payment on Class C LP Units	923	955	2,776	2,838
Interest on the convertible debentures (Note 6)	965	965	2,878	2,878
Interest on lease liability	114	99	347	299
Amortization of deferred financing costs	642	679	1,954	2,103
Amortization of deferred financing costs on the convertible debentures	168	156	484	466
Fair value loss (gain) on conversion option on the convertible debentures	(194)	2,157	(2,662)	3,383
Loss on extinguishment of mortgages payable	—	—	—	561
	12,782	15,190	36,525	43,351
Distributions on Class B LP Units (Note 7)	3,012	2,924	9,037	8,773
	\$15,794	\$18,114	\$45,562	\$52,124

NOTE 13

TRUST EXPENSES

The components of trust expenses are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Asset management fees and distributions	\$2,922	\$2,982	\$9,712	\$8,816
Professional fees	287	196	870	828
Public company expenses	166	174	525	539
Other	253	81	552	450
	\$3,628	\$3,433	\$11,659	\$10,633

NOTE 14

RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 5, 6, 7, 8 and 10(d), related party transactions also include the following:

Agreements with Morguard Affiliates

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

Property Management

Pursuant to the Agreements, Morguard's affiliates administer the day-to-day operations of the Canadian and U.S. income producing properties, for which Morguard's affiliates receive partnership fees and distributions equal to 3.5% of gross property revenue of the income producing properties, payable monthly. Fees and distributions for the three and nine months ended September 30, 2020 amounted to \$2,274 (2019 - \$2,135) and \$6,905 (2019 - \$6,449), respectively, and are included in property operating costs and equity income (loss) from investments. As at September 30, 2020, \$638 (December 31, 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. Fees and distributions for the three and nine months ended September 30, 2020 amounted to \$3,096 (2019 - \$3,037) and \$10,226 (2019 - \$8,980), respectively, are included in trust

expenses and equity income (loss) from investments. As at September 30, 2020, \$1,745 (December 31, 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. There were no fees relating to acquisition services for the three and nine months ended September 30, 2020 and 2019.

Financing

Pursuant to the Agreements, with respect to arranging for financing services, Morguard's affiliates are entitled to receive partnership fees equal to 0.15% of the principal amount and associated costs (excluding mortgage premiums) of any debt financing or refinancing. Fees relating to financing services for the three and nine months ended September 30, 2020 amounted to \$nil (2019 - \$nil) and \$37 (2019 - \$nil), respectively, and have been capitalized to deferred financing costs.

Development

Pursuant to the Agreements, Morguard's affiliates are entitled to receive partnership fees equal to 1.00% of development costs, where such costs exceed \$1,000 and are incurred in connection with: (i) the construction, enlargement or reconstruction of any building, erection, plant, equipment or improvement on a property; or (ii) any refurbishing, additions, upgrading or restoration of or renovations to existing buildings, erections, plant, equipment or improvements, including redevelopments, other than repair and maintenance in the ordinary course of business. Fees relating to development services for the three and nine months ended September 30, 2020, amounted to \$10 (2019 - \$17) and \$39 (2019 - \$49), respectively, and are included in property under development. As at September 30, 2020, \$7 (December 31, 2019 - \$22) is included in accounts payable and accrued liabilities.

Other Services

As at September 30, 2020, the REIT had its portfolio appraised by Morguard's appraisal division. Fees relating to appraisal services for the three and nine months ended September 30, 2020 amounted to \$49 (2019 - \$53) and \$149 (2019 - \$163), respectively, and are included in trust expenses.

On April 11, 2020, the Canada Emergency Wage Subsidy ("CEWS") was enacted. CEWS generally provides an amount to employers equal to 75% of employees' remuneration paid, up to a maximum of \$847 (in actual dollars) per week per employee, from March 15 to June 6, 2020, the first three periods. Subsequently, CEWS was extended to December 19, 2020 and the Government of Canada announced its intention to further extend the program until June 2021. Eligibility applies to the associated related party group under common control. When the affiliated group and/or stand alone entity has experienced a significant decline in revenues as compared to the same period in the previous year (among other criteria), the entity will be eligible for CEWS. Included in other income (expense) for the three and nine months ended September 30, 2020, is an allocation of on-site payroll services relating to the REIT's Canadian properties provided by Morguard affiliates amounting to \$nil (2019 - \$nil) and \$925 (2019 - \$nil), respectively.

NOTE 15

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.

As at September 30, 2020, the U.S. subsidiaries of the REIT have total net operating losses of approximately US\$34,067 (December 31, 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 September 30, 2020, the U.S. subsidiaries of the REIT have total net operating losses of approximately US\$14,929 (December 31, 2019 - US\$5,782) of which deferred tax assets were recognized. The net operating losses can be carried forward indefinitely.

As at September 30, 2020, the REIT's U.S. subsidiaries have a total of US\$1,867 (December 31, 2019 - US\$9,206) of unutilized interest expense deductions on which deferred tax assets were recognized.

NOTE 16

CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Fair value gain on real estate properties, net	(\$46,739)	(\$15,076)	(\$68,521)	(\$62,580)
Fair value loss (gain) on Class B LP Units	(1,550)	24,629	(68,720)	46,502
Fair value loss (gain) on conversion option on the convertible debentures	(194)	2,157	(2,662)	3,383
Equity loss (income) from investments	4,109	(37)	2,546	(2,165)
Amortization of deferred financing - mortgages	566	604	1,729	1,877
Amortization of deferred financing - Class C LP Units	76	75	225	226
Amortization of deferred financing - convertible debentures	168	156	484	466
Present value adjustment of tax liability on Class C LP Units	144	143	430	424
Loss on extinguishment of mortgages payable	—	—	—	561
Amortization of tenant incentives	231	215	817	737
Deferred income taxes	3,548	3,801	11,677	11,011
	(\$39,641)	\$16,667	(\$121,995)	\$442

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Amounts receivable	(\$460)	\$17	(\$2,254)	\$175
Prepaid expenses	(7,027)	(2,473)	(6,861)	(6,478)
Accounts payable and accrued liabilities	5,537	(1,180)	2,625	(246)
	(\$1,950)	(\$3,636)	(\$6,490)	(\$6,549)

(c) Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Interest paid	\$12,931	\$12,899	\$36,984	\$37,401

(d) Reconciliation of Liabilities Arising from Financing Activities

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

As at September 30, 2020	Mortgages Payable and Class C LP Units	Convertible Debentures	Morguard Facility	Lease Liability	Total
Balance, beginning of period	\$1,230,305	\$86,398	(\$19,972)	\$9,286	\$1,306,017
Repayments	(18,249)	—	(12,000)	—	(30,249)
New financing, net	24,546	—	32,900	—	57,446
Lump-sum repayments	(8,757)	—	—	—	(8,757)
Non-cash changes	2,384	(2,178)	—	—	206
Foreign exchange	21,567	—	(375)	251	21,443
Balance, end of period	\$1,251,796	\$84,220	\$553	\$9,537	\$1,346,106

NOTE 17

MANAGEMENT OF CAPITAL

Refer to the REIT's audited consolidated financial statements as at and for the year ended December 31, 2019 for an explanation of the REIT's capital management policy.

The total managed capital for the REIT as at September 30, 2020, and December 31, 2019, is summarized below:

As at	September 30, 2020	December 31, 2019
Mortgages payable, principal balance	\$1,177,799	\$1,154,960
Class C LP Units and present value of tax payment, principal balance	84,981	87,483
Convertible debentures, face value	85,500	85,500
Morguard Facility	553	—
Lease liability	9,537	9,286
Class B LP Units	249,735	318,455
Unitholders' equity	1,302,687	1,136,363
	\$2,910,792	\$2,792,047

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

As at	Borrowing Limits	September 30, 2020	December 31, 2019
Total debt to gross book value	70%	42.8%	44.1%
Floating-rate debt to gross book value	20%	—%	—%

NOTE 18

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer to the REIT's audited consolidated financial statements as at and for the year ended December 31, 2019 for an explanation of the REIT's risk management policy as it relates to financial instruments.

Fair Value of Financial Assets and Liabilities

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

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

The fair values of the mortgages payable and Class C LP Units have been determined by discounting the cash flows of these financial obligations using September 30, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, as at September 30, 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 \$1,270,274 and \$77,662,

(December 31, 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 September 30, 2020, the fair value of the convertible debentures before deferred financing costs has been estimated at \$86,312 (December 31, 2019 - \$91,400), compared with the carrying value of \$85,223 (December 31, 2019 - \$85,223).

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

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

	September 30, 2020			December 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Real estate properties	\$—	\$—	\$3,009,942	\$—	\$—	\$2,872,658
Financial liabilities:						
Class B LP Units	249,735	—	—	318,455	—	—
Conversion option of the convertible debentures	—	810	—	—	3,472	—

The REIT's convertible debentures have no restrictive covenants.

NOTE 19

SEGMENTED INFORMATION

All of the REIT's assets and liabilities are in, and their revenue is derived from, the Canadian and U.S. multi-suite residential real estate segments. The Canadian properties are located in the provinces of Alberta and Ontario, and the U.S. properties are located in the states of Colorado, Texas, Louisiana, Illinois, Georgia, Florida, North Carolina and Virginia. No single tenant accounts for 10% or more of the REIT's total revenue. The REIT is separated into two reportable segments, Canada and the United States. The REIT has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

Additional information with respect to each reportable segment is outlined below:

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenue from income producing properties	\$23,635	\$38,524	\$62,159	\$23,468	\$37,667	\$61,135
Property operating expenses	(10,482)	(12,881)	(23,363)	(9,929)	(13,168)	(23,097)
Net operating income	\$13,153	\$25,643	\$38,796	\$13,539	\$24,499	\$38,038

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenue from real estate properties	\$71,112	\$116,546	\$187,658	\$69,565	\$114,788	\$184,353
Property operating expenses	(30,064)	(60,253)	(90,317)	(30,055)	(60,434)	(90,489)
Net operating income	\$41,048	\$56,293	\$97,341	\$39,510	\$54,354	\$93,864

As at	September 30, 2020			December 31, 2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Real estate properties	\$1,338,884	\$1,671,058	\$3,009,942	\$1,276,620	\$1,596,038	\$2,872,658
Mortgages payable and Class C LP Units	\$439,302	\$812,494	\$1,251,796	\$434,746	\$795,559	\$1,230,305

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to real estate properties	\$1,853	\$4,909	\$6,762	\$4,096	\$6,301	\$10,397
Fair value gain on real estate properties	\$36,188	\$4,953	\$41,141	\$6,059	\$3,783	\$9,842

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to real estate properties	\$7,262	\$13,351	\$20,613	\$7,073	\$16,454	\$23,527
Fair value gain on real estate properties	\$55,035	\$19,193	\$74,228	\$49,425	\$19,002	\$68,427

NOTE 20

SUBSEQUENT EVENTS

The REIT collected approximately 95.1% (95.6% in Canada / 94.8% in the U.S.) of October rental revenue which is materially in line with historical collection rates and approximately 0.9% of tenants have deferred payment plans.

The REIT substantially completed the redevelopment of its mid-rise 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 and is 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.