



MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2020 | THIRD QUARTER
MORGUARD
NORTH AMERICAN
RESIDENTIAL REIT

EXPANSION FROM
DECISIVE ACTION



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 three and nine months ended September 30, 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 three and nine months ended September 30, 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 unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2020 and 2019. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards (“IFRS”) IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and is dated October 27, 2020. Disclosure contained in this document is current to that date unless otherwise noted.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words “anticipates”, “believes”, “may”, “continue”, “estimate”, “expects” and “will” and words of similar expression, constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the REIT operates; changes in business strategy or development/acquisition plans; environmental exposures; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the REIT; 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 (loss). 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 condensed 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 (loss), are adjusted to include its share of NOI in calculating Proportionate NOI.

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

SAME PROPERTY NOI / PROPORTIONATE NOI

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

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

INDEBTEDNESS

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

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

GROSS BOOK VALUE

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

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

INDEBTEDNESS TO GROSS BOOK VALUE RATIO

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

INTEREST COVERAGE RATIO

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

INDEBTEDNESS COVERAGE RATIO

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

FUNDS FROM OPERATIONS ("FFO")

FFO is a non-IFRS measure widely used as a real estate industry standard that supplements net income and evaluates operating performance but is not indicative of funds available to meet the REIT's cash requirements. FFO can assist with comparisons of the operating performance of the REIT's real estate between periods and relative to other real estate entities. FFO is computed by the REIT in accordance with the current definition of the Real Property Association of Canada ("REALpac") and is defined as net income (loss) 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 (loss) 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 (loss) 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 (loss) 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 (loss) and have been adjusted on a proportionately owned basis to each respective financial statement line presented within the balance sheet and statements of income (loss). 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 in 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 in 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. The LTB will begin working through its backlog of pending eviction orders and will gradually expand services in August, however all in-person service counters remain closed until further notice. Effective August 1, 2020, the LTB will begin to issue eviction orders that are pending, start to issue consent eviction orders which are based on landlord and tenants settling their dispute through an agreement and start to schedule hearings for non-urgent evictions.

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 passed legislation to freeze rent at 2020 levels. 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).

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 to temporarily halt evictions for eligible tenants until December 31, 2020.

2020 Rental Collection Summary

As at October 27, 2020, the REIT collected 97.9% of third quarter rental revenue and 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. 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 October 27, 2020, the REIT's collection of rental revenue during 2020 is summarized below by region:

Region	Q1	Q2	July	August	September	October	% Rental Revenue
Canada	99.7%	99.5%	99.2%	98.7%	98.3%	95.6%	37.9%
U.S.	99.9%	99.2%	97.9%	97.3%	96.6%	94.8%	62.1%
Total	99.8%	99.3%	98.4%	97.9%	97.3%	95.1%	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 for the three and nine months ended September 30, 2020 and for the same period in 2019 is provided below:

For the three months ended September 30	2020	% of Revenue	2019	% of Revenue
Canada	\$188	0.8%	\$38	0.2%
U.S.	504	1.3%	338	0.9%
Total	\$692	1.1%	\$376	0.6%

For the nine months ended September 30	2020	% of Revenue	2019	% of Revenue
Canada	\$259	0.4%	\$76	0.1%
U.S.	1,030	0.9%	940	0.8%
Total	\$1,289	0.7%	\$1,016	0.6%

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 the 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 October 27, 2020, 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 October 27, 2020, the REIT's occupancy remains stable in Canada and in the U.S. with the exception of a few properties directly impacted by university and local business closures 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 the U.S. eviction moratorium may have on traffic and turnover levels in the coming months.

Liquidity

The REIT has liquidity of \$134,000, comprised of approximately \$34,500 cash and \$99,500 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 \$45,400 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 (In thousands of dollars, except as noted otherwise)	September 30, 2020	December 31, 2019	September 30, 2019
Operational Information			
Number of properties	43	43	42
Total suites	13,275	13,277	12,587
Occupancy percentage - Canada	96.4%	98.8%	99.4%
Occupancy percentage - U.S.	93.3%	94.5%	94.4%
AMR - Canada (in actual dollars)	\$1,481	\$1,432	\$1,417
AMR - U.S. (in actual U.S. dollars)	US\$1,427	US\$1,409	US\$1,340
Summary of Financial Information			
Gross book value	\$3,177,215	\$3,033,427	\$3,070,572
Indebtedness	\$1,358,370	\$1,337,229	\$1,351,136
Indebtedness to gross book value ratio	42.8%	44.1%	44.0%
Weighted average mortgage interest rate ⁽¹⁾	3.45%	3.48%	3.49%
Weighted average term to maturity on mortgages payable (years)	5.1	5.6	5.1
Exchange rates - United States dollar to Canadian dollar	\$1.33	\$1.30	\$1.32
Exchange rates - Canadian dollar to United States dollar	\$0.75	\$0.77	\$0.76

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

(In thousands of dollars, except per Unit amounts)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Summary of Financial Information				
Interest coverage ratio	2.24	2.29	2.35	2.28
Indebtedness coverage ratio	1.53	1.61	1.60	1.60
Revenue from real estate properties	\$62,159	\$61,135	\$187,658	\$184,353
NOI	\$38,796	\$38,038	\$97,341	\$93,864
Proportionate NOI	\$33,722	\$31,673	\$105,445	\$95,522
Same Property Proportionate NOI	\$32,131	\$31,673	\$99,067	\$94,406
NOI margin - IFRS	62.4%	62.2%	51.9%	50.9%
NOI margin - Proportionate	53.2%	53.6%	54.9%	53.7%
Net income (loss)	\$53,472	(\$1,407)	\$169,896	\$44,231
FFO - basic	\$16,085	\$16,148	\$53,516	\$47,091
FFO - diluted	\$17,050	\$17,113	\$56,394	\$49,969
FFO per Unit - basic	\$0.29	\$0.31	\$0.95	\$0.91
FFO per Unit - diluted	\$0.28	\$0.30	\$0.94	\$0.89
Distributions per Unit	\$0.1749	\$0.1698	\$0.5247	\$0.5094
FFO payout ratio	61.1%	55.6%	55.1%	55.8%
Weighted average number of Units outstanding (in thousands):				
Basic ⁽¹⁾	56,227	52,897	56,217	51,609
Diluted ^{(1) (2)}	60,460	57,130	60,450	55,842
Average exchange rates - United States dollar to Canadian dollar	\$1.33	\$1.32	\$1.35	\$1.33
Average exchange rates - Canadian dollar to United States dollar	\$0.75	\$0.76	\$0.74	\$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 September 30, 2020, the REIT's multi-suite residential property portfolio consists of 16 Canadian properties and 27 U.S. properties (including one property under development), having a total of 13,275 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.

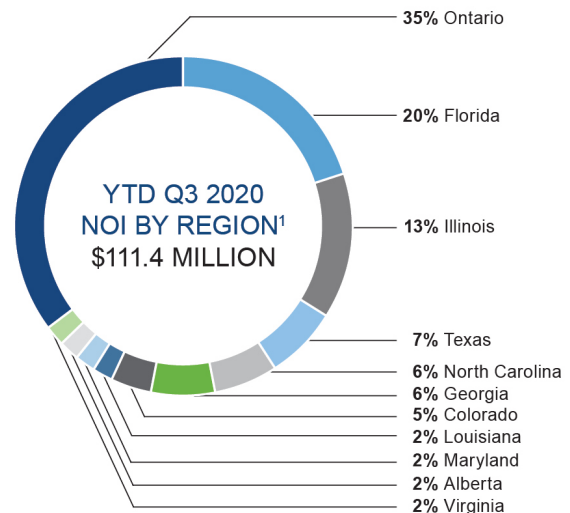
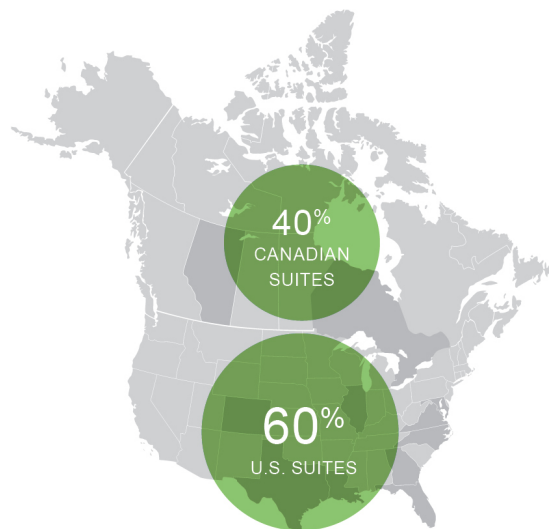
The following table details the regional distribution of the REIT's portfolio as at September 30, 2020:

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%	\$59,800
Ontario				
Mississauga	7	2,219	16.7%	679,200
Toronto	6	1,997	15.0%	396,684
Other ⁽²⁾	2	842	6.4%	203,200
	16	5,335	40.2%	\$1,338,884
U.S. Properties				
Colorado	2	454	3.4%	\$124,720
Texas	3	1,021	7.7%	210,356
Louisiana	2	279	2.1%	42,685
Illinois	2	1,205	9.1%	646,409
Georgia	3	814	6.1%	170,966
Florida	10	2,593	19.5%	541,777
North Carolina	2	864	6.5%	182,011
Virginia	1	104	0.8%	63,893
Maryland	1	492	3.7%	175,675
	26	7,826	58.9%	\$2,158,492
Impact of realty taxes accounted for under IFRIC 21				7,486
Total before property under development	42	13,161	99.1%	\$3,504,862
Property under development ⁽³⁾	1	114	0.9%	28,484
Total	43	13,275	100.0%	\$3,533,346

(1) Total suites and fair value of real estate properties include non-controlling interest; the REIT, on a proportionate basis, has ownership of 12,255 suites. Fair value of real estate properties represents the sum of income producing properties (\$3,009,942) and equity-accounted investment properties (\$523,404) inclusive of non-controlling interest share.

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

(3) Represents a property located in New Orleans, Louisiana, under development. In October 2020, the property commenced its initial lease-up.



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

Approximately 79% of 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.

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 September 30, 2020	AMR/Suite at September 30, 2019	% Change	Occupancy at September 30, 2020	Occupancy at September 30, 2019
Canadian Properties (in Canadian dollars)					
Alberta	\$1,413	\$1,406	0.5%	77.5%	97.5%
Ontario					
Mississauga	1,652	1,567	5.4%	97.6%	99.7%
Toronto	1,323	1,273	3.9%	98.0%	99.4%
Other ⁽¹⁾	1,422	1,363	4.3%	95.1%	99.5%
Total Ontario	1,485	1,418	4.7%	97.4%	99.6%
Total Canada (in Canadian dollars)	\$1,481	\$1,417	4.5%	96.4%	99.4%
U.S. Properties (in US dollars)					
Colorado	\$1,434	\$1,397	2.6%	92.2%	93.6%
Texas	1,325	1,299	2.0%	92.6%	92.8%
Louisiana	1,235	1,211	2.0%	94.5%	93.8%
Illinois	2,416	2,429	(0.5%)	95.5%	98.8%
Georgia	1,302	1,282	1.6%	91.6%	94.6%
Florida	1,300	1,267	2.6%	96.9%	94.7%
North Carolina	1,114	1,073	3.8%	92.8%	95.5%
Virginia	2,127	2,210	(3.8%)	91.3%	90.3%
Maryland	1,894	1,893	0.1%	88.1%	94.3%
U.S. Same Property Acquisition⁽²⁾	1,366	1,340	1.9%	94.1%	94.4%
	2,575	—	100.0%	78.6%	—%
Total U.S. (in US dollars)	\$1,427	\$1,340	6.5%	93.3%	94.4%
Total (in local currencies)	\$1,451	\$1,374	5.6%	94.6%	96.7%

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

(2) U.S. acquisition includes the Marquee at Block 37 acquired on December 9, 2019.

CANADIAN PROPERTIES

As at September 30, 2020, AMR per suite in Canada increased by 4.5% compared to September 30, 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.

Sequentially, AMR in Canada of \$1,481 increased (1.9%) compared to \$1,454 as at June 30, 2020, reflecting lower turnover and waived rental increases impacting AMR at June 30, 2020. 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.

The REIT continued to experience strong demand, particularly in Ontario, which has allowed the REIT to increase rents as suites turn over. During the nine months ended September 30, 2020, the REIT's Canadian portfolio turned over 417 suites, or 7.8% of total suites located in Canada and achieved AMR growth of 17.9% on suite turnover. Overall, Canadian turnover is lower compared to 11.9% achieved during the nine months ended September 30, 2019, largely due to the impact COVID-19 had on disrupting normal traffic patterns as tenants were less willing to move.

As at September 30, 2020, occupancy in Canada was 96.4%, compared to 99.4% at September 30, 2019, reflecting stable demand predominantly in Ontario. Overall, occupancy in Canada declined slightly 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.

The decrease in occupancy at the REIT's single property located in Edmonton, Alberta from 97.5% at September 30, 2019 to 77.5% at September 30, 2020, primarily reflects a combination of higher turnover from student tenant move-out's and fewer move-in's, as universities continue to be closed or are offering e-learning only options. In addition, Other Ontario occupancy decreased from 99.5% at September 30, 2019 to 95.1% at

September 30, 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 AGI's at seven Ontario properties providing additional rent increases for a twelve month period commencing at various effective dates in 2020, ranging from 0.85% to 2.10% and five other pending applications that will provide AGI's 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 September 30, 2020, Same Property AMR per suite in the U.S. increased by 1.9% compared to September 30, 2019. The REIT had AMR growth in all U.S. regions, except for Virginia and Illinois, mainly attributable to improved occupancy achieved at the end of 2019, creating less availability during 2020 compared with the previous year, which enabled leasing at higher rental rates. Strong performance in North Carolina, Florida, Colorado and Georgia lead the portfolio.

As at September 30, 2020, Same Property occupancy in the U.S. was stable at 94.1% compared to 94.4% at September 30, 2019. The onset of COVID-19 and stay-at-home orders disrupted normal traffic patterns throughout the portfolio. Management quickly pivoted to virtual leasing programs to adjust to the new environment and has implemented several new strategies to manage the changes in 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 service levels. With few exceptions the REIT's U.S. residential assets continue to perform well. During the three months ended September 30, 2020, rent collections remained strong, exceeding 97% during the quarter. Occupancy at the Marquee at Block 37 in Chicago, Illinois, was 78.6% at September 30, 2020 and continues to be impacted by corporate housing and local universities ceasing in person classes. The Marquee at Block 37 held a number of furnished corporate leases targeted towards Chicago's theater district which is expected to remain closed for business into the fourth quarter. However, Chicago has moved into Phase IV of its reopening plan and leasing velocity has improved and management expects the impact on this property to be temporary as the property works through a transition period in 2020 to reduce its exposure to, and reliance on, both corporate housing and students. As the dip in occupancy is expected to be short term, management will continue to monitor the immediate sub-market and strategically work to hold rents while maintaining stable occupancy.

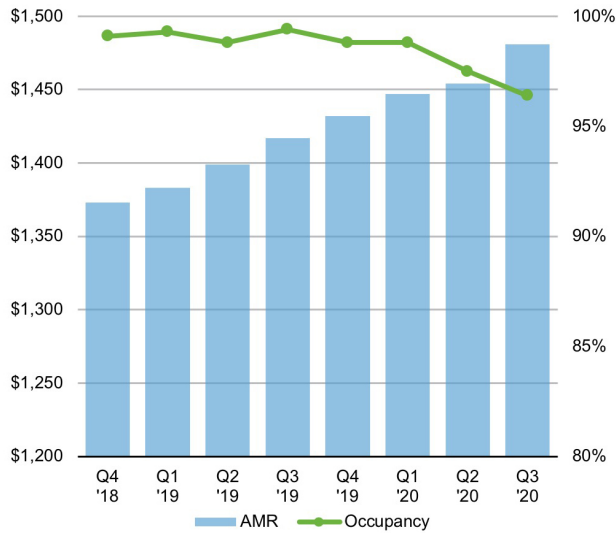
The REIT continues to utilize revenue management tools aimed at balancing rent growth, traffic and renewal exposure. As at September 30, 2020, that balance has been maintained through the busy summer leasing season. Management aims to match expiring leases with new move-ins using multiple technologies, virtual leasing, contactless apartment tours and improved access. With few exceptions, the REIT has also maintained Same Property AMR growth over 2019 within each respective sub-market as it enjoyed strong occupancies. One of the REIT's smaller properties in the Washington DC metro area continues to face supply challenges in addition to an increased number of move-outs from relocations from job loss and/or home purchases spurred by low interest rates. The same market forces exist in Chicago as well. This resulted in lower AMR and the need to provide limited rental incentives at specific properties in which occupancies in the immediate sub-markets remain soft.

Sequentially, Same Property occupancy in the U.S. slightly decreased to 94.1% compared to 94.3% as at June 30, 2020. In light of the COVID-19 impact, the decrease in occupancy was due to the reasons discussed above and impacted Illinois, North Carolina, and Georgia, partly offset by higher resident retention throughout the majority of the portfolio.

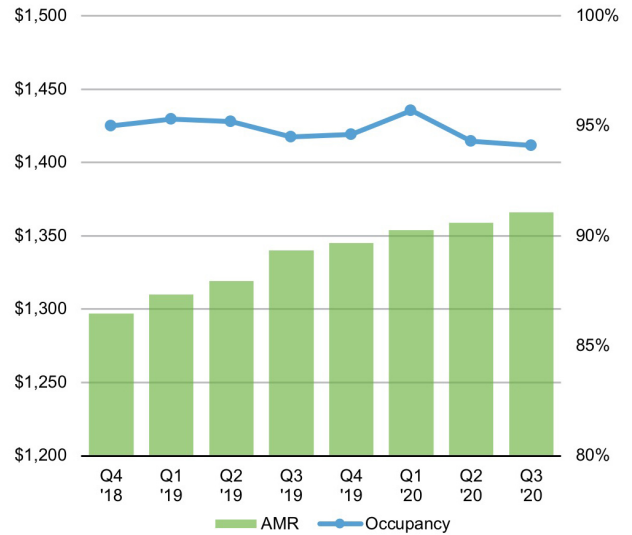
For the nine months ended September 30, 2020, the REIT's rental incentives amounted to \$459 (2019 - \$739), mainly at properties that were impacted by new supply. During the nine months ended September 30, 2020 and throughout 2019, the use of rental incentives decreased compared to 2018, to reflect 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. 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 throughout the remainder of the year.

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 December 31, 2018:

CANADA



U.S.



PART III

REVIEW OF OPERATIONAL RESULTS

The REIT's operational results are summarized below:

(In thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenue from real estate properties	\$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	15,794	18,114	45,562	52,124
Trust expenses	3,628	3,433	11,659	10,633
Equity loss (income) from investments	4,109	(37)	2,546	(2,165)
Foreign exchange loss (gain)	446	(207)	(517)	486
Other expenses (income)	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	41,141	9,842	74,228	68,427
Fair value gain (loss) on Class B LP Units	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

REVENUE FROM REAL ESTATE PROPERTIES

Higher rental revenue for the three and nine months ended September 30, 2020 is mainly due to rental rate increases and foreign exchange fluctuations, partly offset by dispositions during the first half of 2019.

NET OPERATING INCOME

The following tables provide the NOI and Proportionate NOI for the REIT's consolidated Canadian and U.S. operations. Same Property NOI for the three and nine months ended September 30, 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 three and nine months ended September 30, 2020, measures the operating performance for properties owned and have reached stabilization by the REIT continuously since July 1, 2019, and January 1, 2019, respectively, and excludes the following properties: i) five properties in Louisiana sold during the first half of 2019; ii) 1643 Josephine Street, New Orleans, Louisiana, acquired April 5, 2018, classified as property under development; iii) the acquisition of partial interests in three properties controlled by the REIT located in Mississauga, Ontario, on May 22, 2019; and iv) the acquisition of a 50% interest in Marquee at Block 37, located in Chicago, Illinois, on December 9, 2019.

Same Property and Same Property Proportionate results for the three months ended September 30, 2020 represents 11,979 and 11,796 residential suites, respectively.

Same Property and Same Property Proportionate results for the nine months ended September 30, 2020 represents 11,979 and 11,715 residential suites, respectively.

Net Operating Income - Three months ended September 30, 2020

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

For the three months ended September 30 (In thousands of dollars)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Revenue from properties				
Same Property	\$62,159	\$60,333	\$61,135	\$59,112
Acquisitions	—	3,029	—	—
Total revenue from properties	62,159	63,362	61,135	59,112
Property operating expenses				
Same Property				
Operating costs	16,358	15,965	16,205	15,816
Realty taxes	2,617	7,868	2,775	7,557
Utilities	4,388	4,369	4,117	4,066
Same Property	23,363	28,202	23,097	27,439
Acquisitions	—	1,438	—	—
Total property operating expenses	23,363	29,640	23,097	27,439
NOI				
Same Property	38,796	32,131	38,038	31,673
Acquisitions	—	1,591	—	—
Total NOI	\$38,796	\$33,722	\$38,038	\$31,673
NOI margin	62.4%	53.2%	62.2%	53.6%

For the three months ended September 30, 2020, NOI from the REIT's properties increased by \$758 (or 2.0%) to \$38,796, compared to \$38,038 in 2019. The increase in NOI is due to an increase in Same Property NOI of \$758 (or 2.0%). The Same Property increase of \$758 is due to an increase in the U.S. of US\$709 (or 3.8%), partially offset by a decrease in Canada of \$386 (or 2.9%) and the change in foreign exchange rate which increased NOI by \$435.

For the three months ended September 30, 2020, Proportionate NOI from the REIT's properties increased by \$2,049 (or 6.5%) to \$33,722, compared to \$31,673 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of \$458 (or 1.4%) and an increase from the acquisition of properties of \$1,591. The Same Property increase of \$458 is due to an increase in the U.S. of US\$527 (or 3.8%), partially offset by a decrease in Canada of \$389 (or 2.9%) and the change in foreign exchange rate which increased Proportionate NOI by \$320.

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

For the three months ended September 30 (In thousands of dollars)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Same Property NOI - Canada (local currency)	\$13,153	\$13,075	\$13,539	\$13,464
Same Property NOI - U.S. (local currency)	19,257	14,312	18,548	13,785
Acquisitions (local currency)	—	1,194	—	—
Exchange amount to Canadian dollars	6,386	5,141	5,951	4,424
Total NOI	\$38,796	\$33,722	\$38,038	\$31,673

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

For the three months ended September 30 (In thousands of dollars)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Revenue from properties	\$23,635	\$23,507	\$23,468	\$23,342
Property operating expenses				
Same Property				
Operating costs	5,249	5,226	5,070	5,047
Realty taxes	2,636	2,620	2,407	2,391
Utilities	2,597	2,586	2,452	2,440
Total property operating expenses	10,482	10,432	9,929	9,878
NOI	\$13,153	\$13,075	\$13,539	\$13,464
NOI margin	55.7%	55.6%	57.7%	57.7%

For the three months ended September 30, 2020, NOI from the Canadian properties decreased by \$386 (or 2.9%) to \$13,153, compared to \$13,539 in 2019. The decrease in NOI is due to an increase in operating expenses of \$553 (or 5.6%), partially offset by an increase in rental revenue of \$167 (or 0.7%) from higher AMR (4.5%) net of increased vacancy and concessions given to existing tenants for the collection of rental increases during the pandemic through August 2020. The increase in operating expenses was due to an increase in operating costs of \$179, realty taxes of \$229 and utilities of \$145. Operating costs increased due to insurance expense from higher premiums, bad debt expense and additional cleaning costs, which was partially offset by lower repairs and maintenance expenditures 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 from higher water and hydro consumption generally related to the increased number of tenants who stayed indoors as part of social distancing guidelines, which was partially offset by the positive impact of the REIT's energy initiatives and sub-metering program. In addition, hydro rates increased as part of the province of Ontario's Ontario Electricity Rebate ("OER") program effective November 1, 2019, which was offset by a higher rebate under the program.

For the three months ended September 30, 2020, Proportionate NOI from the Canadian properties decreased by \$389 (or 2.9%) to \$13,075, compared to \$13,464 in 2019. The decrease in Proportionate NOI is due to an increase in operating expenses of \$554 (or 5.6%), partially offset by an increase in rental revenue of \$165 (or 0.7%) from higher AMR (4.5%) net of increased vacancy and concessions given to existing tenants for the collection of rental increases during the pandemic through August 2020. The increase in operating expenses of \$554 was due to an increase in operating costs of \$179, realty taxes of \$229 and utilities of \$146 for the same reasons described above.

The REIT's Canadian NOI margin and Proportionate NOI margin were 55.7% and 55.6%, respectively, for the three months ended September 30, 2020, compared to 57.7% and 57.7%, respectively, for the three months ended September 30, 2019. Overall, as noted above, higher vacancy as well as a 5.6% increase in operating expenses contributed to the decrease in NOI margin.

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

For the three months ended September 30 (In thousands of U.S. dollars, unless otherwise stated)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Revenue from properties				
Same Property	\$28,930	\$27,656	\$28,523	\$27,087
Acquisitions	—	2,274	—	—
Total revenue from properties	28,930	29,930	28,523	27,087
Property operating expenses				
Same Property				
Operating costs	8,342	8,065	8,435	8,159
Realty taxes	(15)	3,939	279	3,912
Utilities	1,346	1,340	1,261	1,231
Same Property	9,673	13,344	9,975	13,302
Acquisitions	—	1,080	—	—
Total property operating expenses	9,673	14,424	9,975	13,302
NOI in US dollars				
Same Property	19,257	14,312	18,548	13,785
Acquisitions	—	1,194	—	—
Total NOI (in US dollars)	19,257	15,506	18,548	13,785
Exchange amount to Canadian dollars	6,386	5,141	5,951	4,424
NOI (in Canadian dollars)	\$25,643	\$20,647	\$24,499	\$18,209
NOI margin (in US dollars)	66.6%	51.8%	65.0%	50.9%

For the three months ended September 30, 2020, NOI from the U.S. properties increased by \$1,144 (or 4.7%) to \$25,643, compared to \$24,499 in 2019. The increase in NOI is due to an increase in Same Property NOI of US\$709 (or 3.8%) and the change in foreign exchange rate which increased NOI by \$435. The Same Property increase was due to an increase in rental revenue of US\$407 (or 1.4%) from higher AMR (1.9%) net of increased vacancy, concessions given on late fees and lower parking income, and a decrease in operating expenses of US\$302 (or 3.0%). The decrease in operating expenses is due to a decrease in operating costs of US\$93 and realty taxes of US\$294, partially offset by an increase in utilities of US\$85. The decrease in operating costs is mainly due to lower payroll from the timing of vacant position being filled and lower repairs and maintenance from reduced non-essential common area spending and in-suite repairs, partially offset by an increase in insurance expense from higher premiums, bad debt expense and additional cleaning costs. The decrease in realty taxes is impacted by the IFRIC 21 adjustment, the successful tax appeal at one property in the amount of US\$102 as well as the 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 three months ended September 30, 2020, Proportionate NOI from the U.S. properties increased by \$2,438 (or 13.4%) to \$20,647, compared to \$18,209 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of US\$527 (or 3.8%), an increase in NOI of US\$1,194 from the acquisition of Marquee at Block 37 in December 2019 and the change in foreign exchange rate which increased NOI by \$717. The Same Property increase was mainly due to an increase in rental revenue of US\$569 (or 2.1%) from higher AMR (1.9%) net of increased vacancy, concessions given on late fees and lower parking income, partially offset by an increase in operating expenses of US\$42 (or 0.3%). The increase in operating expenses is due to utilities of US\$109 and realty taxes of US\$27 from an increase in the assessed market value at certain properties as well as the successful tax appeal at one property in the amount of US\$102, partially offset by a decrease in operating costs of US\$94 for the same reasons described above.

The REIT's U.S. NOI margin and Proportionate NOI margin were 66.6% and 51.8%, respectively, for the three months ended September 30, 2020, compared to 65.0% and 50.9%, respectively, for the three months ended September 30, 2019. The NOI margin and Proportionate NOI margin were both impacted by a Same Property increase in revenue and a relatively small decrease/increase in operating expenses, as well, the acquisition of Marquee at Block 37 had a positive impact. In addition, the NOI margin was impacted by accounting for realty taxes under IFRIC 21.

Net Operating Income - Nine months ended September 30, 2020

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

For the nine months ended September 30 (In thousands of dollars)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Revenue from properties				
Same Property	\$186,440	\$181,030	\$181,054	\$175,200
Acquisitions / Dispositions	1,218	11,149	3,299	2,648
Total revenue from properties	187,658	192,179	184,353	177,848
Property operating expenses				
Same Property				
Operating costs	47,149	45,992	45,956	44,955
Realty taxes	29,718	23,079	29,352	22,859
Utilities	12,989	12,892	12,993	12,980
Same Property	89,856	81,963	88,301	80,794
Acquisitions / Dispositions	461	4,771	2,188	1,532
Total property operating expenses	90,317	86,734	90,489	82,326
NOI				
Total Same Property	96,584	99,067	92,753	94,406
Acquisitions / Dispositions	757	6,378	1,111	1,116
Total NOI	\$97,341	\$105,445	\$93,864	\$95,522
NOI margin	51.9%	54.9%	50.9%	53.7%

For the nine months ended September 30, 2020, NOI from the REIT's properties increased by \$3,477 (or 3.7%) to \$97,341, compared to \$93,864 in 2019. The increase in NOI is due to an increase in Same Property NOI of \$3,831 (or 4.1%) and a net decrease from acquisition and disposition of properties of \$354. The Same Property increase of \$3,831 is due to an increase in Canada of \$1,511 (or 3.9%), an increase in the U.S. of US\$849 (or 2.1%) and the change in foreign exchange rate which increased NOI by \$1,471.

For the nine months ended September 30, 2020, Proportionate NOI from the REIT's properties increased by \$9,923 (or 10.4%) to \$105,445, compared to \$95,522 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of \$4,661 (or 4.9%) and a net increase from acquisition and disposition of properties of \$5,262. The Same Property increase of \$4,661 is due to an increase in Canada of \$1,503 (or 3.9%), an increase in the U.S. of US\$1,554 (or 3.7%) and the change in foreign exchange rate which increased Proportionate NOI by \$1,604.

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

For the nine months ended September 30 (In thousands of dollars)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Same Property NOI - Canada (local currency)	\$40,291	\$40,054	\$38,780	\$38,551
Same Property NOI - U.S. (local currency)	41,455	43,573	40,606	42,019
Acquisitions / Dispositions (local currency)	757	4,909	1,015	919
Exchange amount to Canadian dollars	14,838	16,909	13,463	14,033
Total NOI	\$97,341	\$105,445	\$93,864	\$95,522

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

For the nine months ended September 30 (In thousands of dollars)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Revenue from properties				
Same Property	\$69,894	\$69,512	\$68,382	\$68,010
Acquisitions	1,218	1,218	1,183	532
Total revenue from properties	71,112	70,730	69,565	68,542
Property operating expenses				
Same Property				
Operating costs	14,792	14,723	14,058	13,994
Realty taxes	7,065	7,019	7,486	7,442
Utilities	7,746	7,716	8,058	8,023
Same Property	29,603	29,458	29,602	29,459
Acquisitions	461	461	453	205
Total property operating expenses	30,064	29,919	30,055	29,664
NOI				
Same Property	40,291	40,054	38,780	38,551
Acquisitions	757	757	730	327
Total NOI	\$41,048	\$40,811	\$39,510	\$38,878
NOI margin	57.7%	57.7%	56.8%	56.7%

For the nine months ended September 30, 2020, NOI from the Canadian properties increased by \$1,538 (or 3.9%) to \$41,048, compared to \$39,510 in 2019. The increase in NOI is due to an increase in Same Property NOI of \$1,511 (or 3.9%) and an increase of \$27 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 rental revenue of \$1,512 (or 2.2%) from higher AMR (4.5%) net of increased vacancy and concessions given to existing tenants for the collection of rental increases during the pandemic through August 2020. The increase in operating expenses of \$1 was due to an increase in operating costs of \$734, partially offset by lower realty taxes of \$421, resulting from a successful tax appeal at one property in the amount of \$633, and a decrease in utilities of \$312, mainly due to lower gas consumption resulting from the positive impact of the REIT's energy initiatives and sub-metering program and a warmer spring compared to 2019, which was partially offset by higher water and 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 OER program, which was offset by a higher rebate under the program. The increase in operating costs is due to insurance expense from higher premiums, consulting fees of \$140 in connection with the property tax refund noted above, 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 nine months ended September 30, 2020, Proportionate NOI from the Canadian properties increased by \$1,933 (or 5.0%) to \$40,811, compared to \$38,878 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of \$1,503 (or 3.9%) and an increase of \$430 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 rental revenue of \$1,502 (or 2.2%) from higher AMR (4.5%) net of increased vacancy and concessions given to existing tenants for the collection of rental increases during the pandemic through August 2020. The decrease in operating expenses of \$1 was due to lower realty taxes of \$423, resulting from a successful tax appeal at one property in the amount of \$633, and utilities of \$307, offset by an increase in operating costs of \$729 for the same reasons described above.

The REIT's Canadian NOI margin and Proportionate NOI margin were 57.7% and 57.7%, respectively, for the nine months ended September 30, 2020, compared to 56.8% and 56.7%, respectively, for the nine months ended September 30, 2019. Overall, as noted above, the increase in revenue primarily due to higher AMR 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 nine months ended September 30 (In thousands of U.S. dollars, unless otherwise stated)	2020		2019	
	NOI	Proportionate NOI	NOI	Proportionate NOI
Revenue from properties				
Same Property	\$86,092	\$82,374	\$84,775	\$80,651
Acquisitions / Dispositions	—	7,332	1,592	1,592
Total revenue from properties	86,092	89,706	86,367	82,243
Property operating expenses				
Same Property				
Operating costs	23,922	23,117	24,005	23,301
Realty taxes	16,843	11,861	16,450	11,600
Utilities	3,872	3,823	3,714	3,731
Same Property	44,637	38,801	44,169	38,632
Acquisitions / Dispositions	—	3,180	1,307	1,000
Total property operating expenses	44,637	41,981	45,476	39,632
NOI in US dollars				
Same Property	41,455	43,573	40,606	42,019
Acquisitions / Dispositions	—	4,152	285	592
Total NOI (in US dollars)	41,455	47,725	40,891	42,611
Exchange amount to Canadian dollars	14,838	16,909	13,463	14,033
NOI (in Canadian dollars)	\$56,293	\$64,634	\$54,354	\$56,644
NOI margin (in US dollars)	48.2%	53.2%	47.3%	51.8%

For the nine months ended September 30, 2020, NOI from the U.S. properties increased by \$1,939 (or 3.6%) to \$56,293, compared to \$54,354 in 2019. The increase in NOI is due to an increase in Same Property NOI of US\$849 (or 2.1%), a decrease in NOI from the disposition of five properties in Louisiana of US\$285 and the change in foreign exchange rate which increased NOI by \$1,375. The Same Property increase was due to an increase in rental revenue of US\$1,317 (or 1.6%) from higher AMR (1.9%) net of increased vacancy, concessions given on late fees and lower parking income primarily at the REIT's property in Chicago, partially offset by an increase in operating expenses of US\$468 (or 1.1%). The increase in operating expenses is due to realty taxes of US\$393 and utilities of US\$158, partially offset by lower operating costs of US\$83. The increase in realty taxes is due to a higher IFRIC 21 adjustment, as well as 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. The decrease in operating costs is mainly due to lower payroll from the timing of vacant positions being filled and lower repairs and maintenance from reduced non-essential common area spending and in-suite repairs, partially offset by an increase in insurance expense from higher premiums, bad debt expense and additional cleaning costs.

For the nine months ended September 30, 2020, Proportionate NOI from the U.S. properties increased by \$7,990 (or 14.1%) to \$64,634, compared to \$56,644 in 2019. The increase in Proportionate NOI is due to an increase in Same Property Proportionate NOI of US\$1,554 (or 3.7%), an increase in NOI of US\$3,560 from the acquisition of Marquee at Block 37 in December 2019, net of a decrease from the disposition of five properties in Louisiana, and the change in foreign exchange rate which increased NOI by \$2,876. The Same Property increase was mainly due to an increase in rental revenue of US\$1,723 (or 2.1%) from higher AMR (1.9%) net of increased vacancy, concessions given on late fees and lower parking income primarily at the REIT's property in Chicago, partially offset by an increase in operating expenses of US\$169 (or 0.4%). The increase in operating expenses is due to realty taxes of US\$261 due to an increase in the assessed market value at certain properties and utilities of US\$92, partially offset by lower operating costs of US\$184 for the same reasons described above.

The REIT's U.S. NOI margin and Proportionate NOI margin were 48.2% and 53.2%, respectively, for the nine months ended September 30, 2020, compared to 47.3% and 51.8%, respectively, for the nine months ended September 30, 2019. The NOI margin and Proportionate NOI margin were both impacted by a Same Property increase in revenue and a relatively small increase in operating expenses, as well the acquisition of Marquee at Block 37 net of the disposition of the five properties had a positive impact. In addition, the NOI margin was impacted by accounting for realty taxes under IFRIC 21.

INTEREST EXPENSE

Interest expense consists of the following:

(In thousands of dollars)	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
Distributions on Class C LP Units - interest	779	812	2,346	2,414
Interest on mortgages and Retained Debt	10,943	10,991	33,094	33,237
Distributions on Class C LP Units - tax payment	144	143	430	424
Interest on convertible debentures	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 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
Interest expense before distributions on Class B LP Units	12,782	15,190	36,525	43,351
Distributions on Class B LP Units	3,012	2,924	9,037	8,773
	\$15,794	\$18,114	\$45,562	\$52,124

Total interest expense decreased by \$2,320 during the three months ended September 30, 2020, to \$15,794, compared to \$18,114 in 2019. The decrease is predominantly due to a non-cash decrease in fair value change on the convertible debentures' conversion option of \$2,351, partially offset by an increase of \$88 in distributions on Class B LP Units resulting from an increase to monthly distributions during the fourth quarter of 2019. The weakening of the Canadian dollar increased interest expense on U.S. mortgages by \$60 excluding the impact of dispositions.

Total interest expense decreased by \$6,562 during the nine months ended September 30, 2020, to \$45,562, compared to \$52,124 in 2019. The decrease is predominantly due to a non-cash decrease in fair value on the convertible debentures' conversion option of \$6,045, a decrease in interest on mortgages and Retained Debt of \$143 and a decrease of \$561 from a loss on extinguishment of mortgages payable associated with the disposals during 2019, partially offset by an increase of \$264 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 increased interest expense on U.S. mortgages by \$432 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 three and nine months ended September 30, 2020, amounted to \$923 (2019 - \$955) and \$2,776 (2019 - \$2,838), respectively.

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 three and nine months ended September 30, 2020 amounted to \$3,012 (2019 - \$2,924) and \$9,037 (2019 - \$8,773), respectively.

TRUST EXPENSES

Trust expenses consist of the following:

(In thousands of dollars)	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

Trust expenses increased by \$195 during the three months ended September 30, 2020, to \$3,628, compared to \$3,433 in 2019, and increased by \$1,026 during the nine months ended September 30, 2020, to \$11,659, compared to \$10,633 in 2019. The increase during the three and nine months ended September 30, 2020 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") as well as higher professional and other trust expenses.

EQUITY (LOSS) INCOME FROM INVESTMENTS

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

Equity loss from investment for the three months ended September 30, 2020, was \$4,109 and included a non-cash fair value loss of \$5,811 and an IFRIC 21 adjustment of \$856. For the three months ended September 30, 2019, equity income from investment was \$37 and included a non-cash fair value loss of \$606 and an IFRIC 21 adjustment of \$272.

Equity loss from investment for the nine months ended September 30, 2020, was \$2,546 and included a non-cash fair value loss of \$5,362 and an IFRIC 21 expense adjustment of \$847. For the nine months ended September 30, 2019, equity income from investment was \$2,165 and included a non-cash fair value gain of \$1,649 and an IFRIC 21 expense adjustment of \$273.

FOREIGN EXCHANGE LOSS (GAIN)

IFRS requires monetary assets and liabilities denominated in foreign currencies to be translated into Canadian dollars at the exchange rate in effect at the reporting date, and any gain or loss is recognized in the consolidated statements of income (loss). For the three months ended September 30, 2020, the REIT's foreign exchange loss amounted to \$446 (2019 - gain of \$207) and for nine months ended September 30, 2020, the REIT's foreign exchange gain amounted to \$517 (2019 - loss of \$486), which is mainly the result of the fluctuation of the Canadian dollar against the United States dollar as at September 30, 2020, when compared to December 31, 2019.

OTHER EXPENSE (INCOME)

Other income (expense) mainly represents interest income earned from the Morguard Facility on advances made to Morguard and other expenses. Other expense during the three months ended September 30, 2020, amounted to \$460 (2019 - income of \$479) and for the nine months ended September 30, 2020, other income amounted to \$632 (2019 - \$630). The decrease in other income during the three months ended September 30, 2020 is predominantly due to unrecoverable prepaid insurance premiums from properties disposed of in previous years. The increase in other income for the nine months ended September 30, 2020 was predominantly due to the Canada Emergency Wage Subsidy ("CEWS") amounting to \$925 (2019 - \$nil), respectively, from an allocation provided by Morguard affiliates of on-site payroll services relating to the REIT's Canadian properties (see Part VI, "Related Party Transactions"), partially offset by unrecoverable insurance premiums (as discussed above) and a decrease in interest income from 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 (loss). 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 three months ended September 30, 2020, the REIT recognized a net fair value gain of \$41,141 (2019 - \$9,842). The fair value gain comprises \$36,188 at the REIT's Canadian properties and \$4,953 at the U.S. properties as a result of an increase in stabilized NOI, net of a \$5,598 adjustment on realty taxes accounted for under IFRIC 21.

For the nine months ended September 30, 2020, the REIT recognized a net fair value gain of \$74,228 (2019 - \$68,427). The fair value gain comprises \$55,035 at the REIT's Canadian properties and \$19,193 at the U.S. properties as a result of an increase in stabilized NOI, and a \$5,707 adjustment on realty taxes accounted for under IFRIC 21.

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 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) (see Part V, "Capital Structure and Debt Profile").

The REIT recognized a fair value gain for the three and nine months ended September 30, 2020 of \$1,550 (2019 - loss of \$24,629) and \$68,720 (2019 - loss of \$46,502), respectively, resulting from a \$3.99 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 three and nine months ended September 30, 2020, the REIT recorded current tax expense of \$30 (2019 - \$33) and \$98 (2019 - \$99), respectively.

For the three and nine months ended September 30, 2020, the REIT recorded deferred tax expense for U.S. federal and state taxes associated with the U.S. subsidiaries of \$3,548 (2019 - \$3,801) and \$11,677 (2019 - \$11,011), respectively. The deferred tax expense is mainly due to a fair value increase related to the U.S. properties.

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

(In thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Current	\$30	\$33	\$98	\$99
Deferred	3,548	3,801	11,677	11,011
Provision for income taxes	\$3,578	\$3,834	\$11,775	\$11,110

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 of 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.

FUNDS FROM OPERATIONS

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

(In thousands of dollars, except per Unit amounts)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net income (loss) for the period attributable to Unitholders	\$51,908	(\$1,950)	\$167,979	\$42,239
Add/(deduct):				
Realty taxes accounted for under IFRIC 21 ⁽¹⁾	(5,848)	(4,991)	5,955	5,522
Fair value loss (gain) on conversion option on the convertible debentures	(194)	2,157	(2,662)	3,383
Distributions on Class B LP Units recorded as interest expense ⁽²⁾	3,012	2,924	9,037	8,773
Foreign exchange loss (gain)	446	(207)	(517)	486
Fair value gain on real estate properties, net ⁽³⁾	(35,330)	(9,236)	(68,866)	(70,076)
Non-controlling interests' share of fair value gain (loss) on real estate properties	93	(979)	(367)	(749)
Fair value loss (gain) on Class B LP Units	(1,550)	24,629	(68,720)	46,502
Deferred income tax provision	3,548	3,801	11,677	11,011
FFO - basic	\$16,085	\$16,148	\$53,516	\$47,091
Interest expense on the convertible debentures	965	965	2,878	2,878
FFO - diluted	\$17,050	\$17,113	\$56,394	\$49,969
FFO per Unit - basic	\$0.29	\$0.31	\$0.95	\$0.91
FFO per Unit - diluted	\$0.28	\$0.30	\$0.94	\$0.89
Weighted average number of Units outstanding (in thousands):				
Basic ⁽⁴⁾	56,227	52,897	56,217	51,609
Diluted ^{(4) (5)}	60,460	57,130	60,450	55,842

(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 September 30, 2020, decreased by \$63, or 0.4%, to \$16,085 (\$0.29 per Unit), compared to \$16,148 (\$0.31 per Unit) in 2019. The decrease is mainly due to a decrease in other income of \$939, primarily from lower interest income earned on the Morguard Facility and a non-recurring charge, and an increase in interest expense of \$856 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures) and trust expenses of \$320 (calculated on a Proportionate Basis) were partially offset by a higher Proportionate NOI of \$2,049.

Basic FFO per Unit for the three months ended September 30, 2020, decreased by \$0.02 to \$0.29 per Unit, compared to \$0.31 per Unit in 2019 due to the following factors:

- i) 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 on December 9, 2019, to acquire Marquee at Block 37, had a \$0.01 per Unit negative impact;
- ii) an increase in other expense relating to a non-recurring write-off of unrecoverable insurance premiums from property dispositions, had a \$0.01 per Unit negative impact.

Basic FFO for the nine months ended September 30, 2020, increased by \$6,425, or 13.6%, to \$53,516 (\$0.95 per Unit), compared to \$47,091 (\$0.91 per Unit) in 2019. The increase is mainly due to higher Proportionate NOI of \$9,923, partially offset by an increase in interest expense of \$2,113 (calculated on a Proportionate Basis and excludes distributions on Class B LP Units and fair value adjustments on the conversion option on the convertible debentures) and an increase in trust expenses of \$1,388 (calculated on a Proportionate Basis).

Basic FFO per Unit for the nine months ended September 30, 2020, increased by \$0.04 to \$0.95 per Unit, compared to \$0.91 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, had a \$0.06 per Unit positive impact, of which a successful property tax appeal, net of consulting fees amounted to \$0.01 per Unit;
- ii) an increase in other income relating to CEWS had a \$0.015 per Unit positive impact, which was partially offset by an increase in other expense relating to a non-recurring write-off of unrecoverable insurance premiums from property dispositions, which had a \$0.01 per Unit negative impact;
- iii) 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 on December 9, 2019, to acquire Marquee at Block 37, had a \$0.035 per Unit negative impact;
- iv) the change in the foreign exchange rate had a \$0.01 per Unit positive impact.

For the nine months ended September 30, 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 three and nine months ended September 30, 2020, total distributions amounted to \$9,834 (2019 - \$9,246) and \$29,498 (2019 - \$26,550), respectively.

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.

Three months ended September 30 (In thousands of dollars)	2020			2019		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Distributions paid and declared	\$6,659	\$3,012	\$9,671	\$6,179	\$2,924	\$9,103
Distributions – DRIP	163	—	163	143	—	143
Total	\$6,822	\$3,012	\$9,834	\$6,322	\$2,924	\$9,246

Nine months ended September 30 (In thousands of dollars)	2020			2019		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Distributions paid and declared	\$19,994	\$9,037	\$29,031	\$17,359	\$8,773	\$26,132
Distributions – DRIP	467	—	467	418	—	418
Total	\$20,461	\$9,037	\$29,498	\$17,777	\$8,773	\$26,550

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

(In thousands of dollars)	Three months ended September 30, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019	Year ended December 31, 2018
	Net income	\$53,472	\$169,896	\$80,128
Cash provided by operating activities	11,681	40,952	62,483	59,947
Distributions - Units ⁽¹⁾	\$6,822	\$20,461	\$24,527	\$22,355
Excess of net income over distributions	\$46,650	\$149,435	\$55,601	\$152,355
Excess of cash provided by operating activities over distributions	\$4,859	\$20,491	\$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 three and nine months ended September 30, 2020, includes net income of \$40,632 and \$123,018, respectively, of non-cash components relating to a fair value gain on real estate properties, fair value gain on Class B LP Units, an IFRIC 21 adjustment to realty taxes, 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 (In thousands of Canadian dollars, unless otherwise stated)	September 30, 2020	December 31, 2019
Canadian Properties		
Alberta	\$59,800	\$59,700
Ontario	1,279,084	1,216,920
Total Canadian Properties	1,338,884	1,276,620
U.S. Properties (in US dollars)		
Colorado	93,500	94,300
Texas	157,700	158,700
Louisiana	32,000	32,000
Illinois	225,200	228,100
Georgia	128,170	124,340
Florida	406,160	396,450
North Carolina	136,450	129,240
Virginia	47,900	48,200
	1,227,080	1,211,330
Property under development	21,354	17,526
Impact of realty taxes accounted for under IFRIC 21	4,327	—
Total U.S. Properties (in US dollars)	1,252,761	1,228,856
Exchange amount to Canadian dollars	418,297	367,182
Total U.S. Properties (in Canadian dollars)	1,671,058	1,596,038
Total real estate properties	\$3,009,942	\$2,872,658

The value of real estate properties increased by \$137,284 as at September 30, 2020, to \$3,009,942, compared to \$2,872,658 at December 31, 2019. The increase is mainly the result of the following:

- An increase of \$42,801 due to the change in U.S. dollar foreign exchange rate;
- A net fair value gain on real estate properties of \$74,228; and
- Capitalization of property enhancements and development expenditures of \$20,613.

APPRAISAL CAPITALIZATION RATES

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

As at September 30, 2020, and December 31, 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 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		
	Max.	Min.	Weighted Average	Max.	Min.	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 ⁽¹⁾	4.8%	4.5%	4.6%	4.8%	4.5%	4.6%
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%
Maryland ⁽¹⁾	4.5%	4.5%	4.5%	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 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 in stabilized net operating income), the value of the income producing properties as at September 30, 2020, would decrease by \$151,241 or increase by \$168,559, 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.

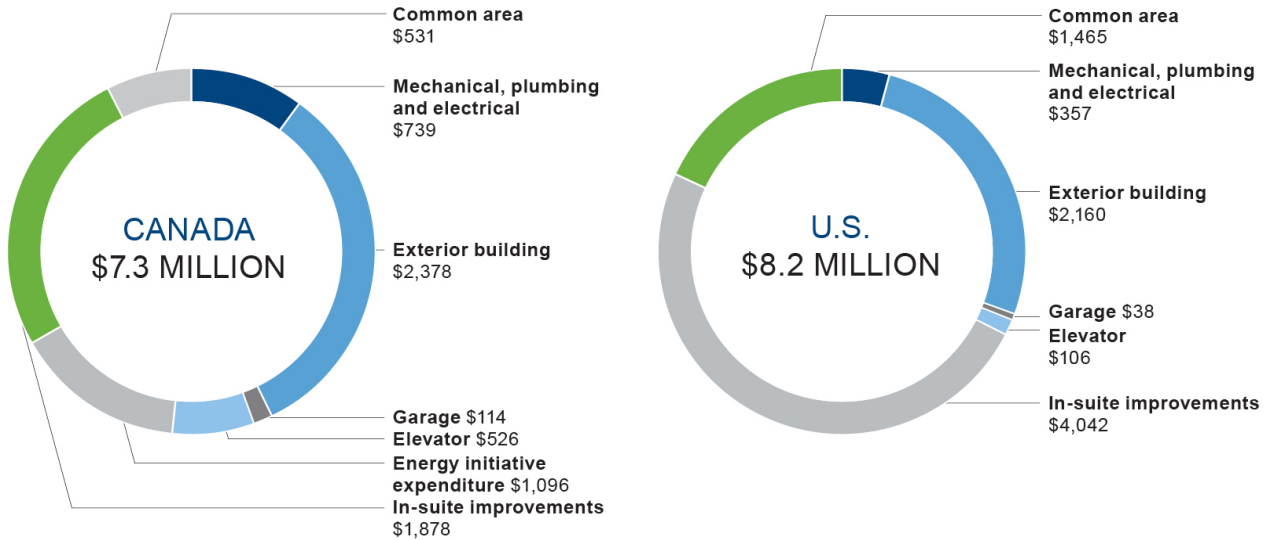
The following table provides additional details on total capital expenditures over the following periods:

(In thousands of dollars)	Nine months ended September 30		Year ended December 31	
	2020	2019	2019	2018
Common area	\$1,996	\$4,372	\$6,389	\$3,721
Mechanical, plumbing and electrical	1,096	1,859	3,959	2,083
Exterior building	4,538	2,004	4,782	4,772
Garage	152	527	752	1,471
Elevator	632	93	105	42
Energy initiative expenditure	1,096	1,182	3,044	5,321
In-suite improvements	5,920	8,930	11,597	11,540
Total capital expenditures	\$15,430	\$18,967	\$30,628	\$28,950

Capital Expenditures by Region

The following details total capital expenditures by region:

For the nine months ended September 30, 2020
 (In thousands of dollars)



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 fiber 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. COVID-19 continues to contribute to a slower pace of construction, primarily by impacts to the supply chain. In addition, increasing concerns over the spread of COVID-19 in New Orleans may further slow the 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 September 30, 2020, and December 31, 2019:

Property	Place of Business	Investment Type	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 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 (In thousands of Canadian dollars)	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

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:

(In thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cash provided by operating activities	\$11,681	\$11,141	\$40,952	\$37,385
Cash provided by (used in) investing activities	(6,762)	(10,397)	(20,613)	15,099
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 the period	31,344	24,459	17,748	16,786
Cash, end of period	\$34,615	\$20,444	\$34,615	\$20,444

Three months ended September 30, 2020 and 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the three months ended September 30, 2020, was \$11,681, compared to \$11,141 in 2019. The change during the period mainly relates to an increase in non-cash operating assets and liabilities of \$1,686, an increase in NOI (excluding IFRIC 21 adjustment) of \$394 and a decrease in additions to tenant incentives of \$283, partially offset by an increase in other expense of \$939, an increase in foreign exchange loss of \$653 and an increase in trust expenses of \$195.

Cash Used in Investing Activities

Cash used in investing activities during the three months ended September 30, 2020, totalled \$6,762, compared to \$10,397 during the same period in 2019. Cash used in investing activities during the period consists of the capitalization of property enhancements and development expenditures.

Cash Used in Financing Activities

Cash used in financing activities during the three months ended September 30, 2020, was \$1,550, compared to \$4,824 during the same period in 2019. The cash used in financing activities during the period was largely due to distributions paid to Unitholders of \$6,659, mortgage principal instalment repayments of \$6,086 and distributions to non-controlling interest of \$417, partially offset by proceeds received from the Morguard Facility of \$10,700 and a decrease in restricted cash of \$912.

Nine months ended September 30, 2020 and 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the nine months ended September 30, 2020, was \$40,952, compared to \$37,385 in 2019. The change during the period mainly relates to an increase in NOI (excluding IFRIC 21 adjustment) of \$3,337, an increase in foreign exchange gain of \$1,003 and a decrease in additions to tenant incentives of \$280, partially offset by an increase in trust expenses of \$1,026.

Cash Provided by (Used in) Investing Activities

Cash used in investing activities during the nine months ended September 30, 2020, totalled \$20,613, compared to cash provided by investing activities of \$15,099 during the same period in 2019. The cash used in investing activities during the period consists of the capitalization of property enhancements and development expenditures.

Cash Used in Financing Activities

Cash used in financing activities during the nine months ended September 30, 2020, totalled \$3,193, compared to \$48,903 during the same period in 2019. The cash used in financing activities during the period was largely due to distributions paid to Unitholders of \$19,994, mortgage principal instalment repayments of \$18,249, repayment of a mortgage on maturity of \$8,757 and distributions to non-controlling interest of \$1,803, partially offset by the net proceeds from new mortgages of \$24,546, the net proceeds received from the Morguard Facility of \$20,900 and a decrease in restricted cash of \$164.

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 (In thousands of dollars)	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
Total capitalization	\$2,910,792	\$2,792,047

DEBT PROFILE

As at September 30, 2020, the overall leverage, as represented by the ratio of total indebtedness to gross book value was 42.8%. The maximum allowable ratio under the Declaration of Trust is 70%.

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

The following table summarizes the key liquidity metrics:

As at	September 30, 2020	December 31, 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)	5.1	5.6

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Interest coverage ratio ^{(1) (2)}	2.24	2.29	2.35	2.28
Indebtedness coverage ratio ^{(1) (3)}	1.53	1.61	1.60	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 (loss) before equity loss (income) from investments, interest expense, income taxes, fair value adjustments, foreign exchange loss (gain) and the impact of realty taxes accounted for under IFRIC 21, divided by interest expense excluding distributions on Class B LP Units and fair value adjustments but including interest on the convertible debentures.

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

As at September 30, 2020, the principal balance on the mortgages payable and Class C LP Units totalled \$1,253,774 (December 31, 2019 - \$1,233,548) and the deferred financing costs associated with the mortgages and Class C LP Units amounted to \$10,984 (December 31, 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 \$9,006 as at September 30, 2020 (December 31, 2019 - \$8,895).

Mortgages payable and Class C LP Units increased by \$21,491 as at September 30, 2020, to \$1,251,796, compared to \$1,230,305 at December 31, 2019. The increase is mainly due to the following:

- Scheduled principal repayments of \$18,249;
- The repayment of a mortgage in the amount of \$8,757 at a property located in Ontario, which was refinanced for a gross proceeds of \$25,151;
- Financing cost of \$605;
- An increase of \$21,567 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 \$2,384.

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%.

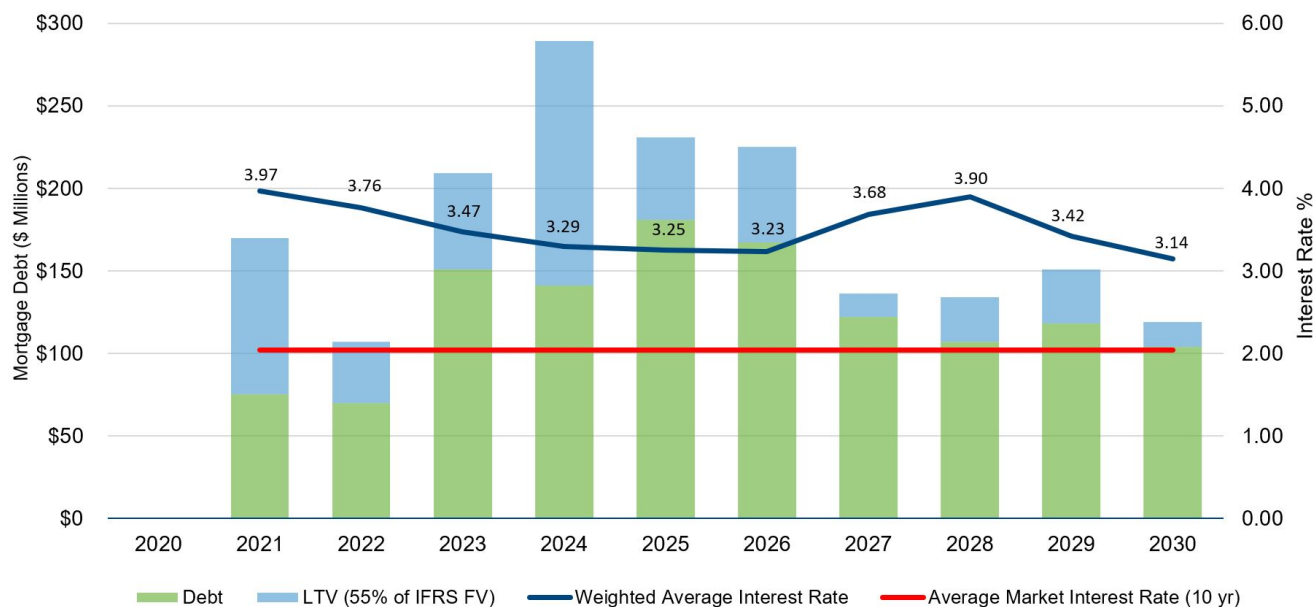
Substantially all of the REIT's rental properties and related rental revenue have been pledged as collateral for the mortgages payable. The REIT's first mortgages are registered against specific real estate assets. Short-term fluctuations in working capital are funded through the Morguard Facility.

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.

Asset Type	2020			2021		
	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.	—	—	—%	—	—	—%
	—	\$—	—%	4	\$75,280	3.97%

As at September 30, 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 September 30, 2020



CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

(In thousands of dollars)	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.

4.50% Convertible Unsecured Subordinated Debentures

On February 13, 2018, the REIT issued \$75,000 principal amount of 4.50% convertible unsecured subordinated debentures ("2018 Debentures") maturing on March 31, 2023 ("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.

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.

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 September 30, 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	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 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

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.

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).

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 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.

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 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). 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.

As at September 30, 2020, Morguard owned a 44.8% effective interest in the REIT through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

As at September 30, 2020, there were 39,009,477 Units and 17,223,090 exchangeable Class B LP Units issued and outstanding.

As at October 27, 2020, there were 39,012,890 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. 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.

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, and 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. 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 amounting to \$nil (2019 - \$nil) and \$37 (2019 - \$nil), respectively, 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.

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, amounting to \$49 (2019 - \$53) and \$149 (2019 - \$163), respectively, and are included in trust expenses.

On April 11, 2020, the Canada Emergency Wage Subsidy 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.

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.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The REIT's condensed consolidated financial statements for the three and nine months ended September 30, 2020 and 2019, have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the IASB. The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2020, and should be read in conjunction with the most recent annual audited consolidated financial statements.

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 (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.

The MD&A for the year ended December 31, 2019, contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being the accounting estimates of fair values of income producing properties and valuation of financial instruments. Management determined that as at September 30, 2020, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2019.

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 September 30, 2020, market rates for debts of similar terms. 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 values of the convertible debentures are based on their market trading price. 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.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and activities of the REIT that investors should carefully consider before investing in securities of the REIT. Risks and uncertainties are disclosed in the REIT's MD&A for the year ended December 31, 2019 and in the Risks and Uncertainties section of the latest Annual Information Form dated, February 11, 2020.

COVID-19 AND OTHER PANDEMIC OR EPIDEMIC

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. Outbreaks, or the threat of outbreaks of viruses or other contagions or epidemic or pandemic diseases, including the recent COVID-19 pandemic, may lead to prolonged voluntary or mandatory building closures, business closures, government restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may lead to a general shutdown of economic activity and disrupt workforce and business operations both in North America and other parts of the World. Such occurrences, including the outbreak of COVID-19 pandemic, could have a material adverse effect on debt and capital markets, the demand for real estate and the ability of tenants to pay rent. The duration and impact of the 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 real estate valuations, equity markets, 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) the negative impact on Canadian and global debt and equity capital markets, impacting both pricing and availability;
- (b) ability to access capital markets at a reasonable cost;
- (c) the trading price of the REIT's securities;
- (d) a material reduction in rental revenue and related collections due to associated financial hardship and non-essential business orders governing the closure of certain businesses;
- (e) a material increase in vacancy potentially caused by both the resulting economic crisis and the inability of businesses to operate;
- (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;
- (i) 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.

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented and assessed the design 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 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 is adequate and effective as of and for the nine months ended September 30, 2020. The REIT's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design is effective as of and for the nine months ended September 30, 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

SUMMARY OF QUARTERLY INFORMATION

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⁾
September 30, 2020	\$62,159	\$38,796	\$16,085	\$51,908	\$0.92	\$0.87
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
December 31, 2018	62,129	38,077	15,215	54,380	1.07	0.94

(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 investment 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 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 for 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 and 1.8% for 2018). In addition, overbuilding in the multi-suite residential sector, particularly in the United States, may increase the supply of multi-suite residential properties, further increasing the level of competition in certain markets. Such competition may reduce occupancy rates and rental revenues of the REIT and, consequently, revenue and operating results.

The REIT has seen steady revenue growth during the last eight quarters resulting from an increase in Same Property revenue. The decline in revenue during the third quarter of 2020 is primarily a result of increased vacancy. 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 September 30, 2020, Same Property occupancy in Canada was 96.4%, 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 September 30, 2020, Same Property occupancy in the U.S. was stable at 94.1% as the REIT's overall U.S. occupancy reached near optimum levels throughout 2019. During 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 quarter 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 nine months ended September 30, 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 nine months ended September 30, 2020 and for the years ended December 31, 2019 and 2018, 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.

PART IX

RECONCILIATION OF NON-IFRS MEASURES

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

BALANCE SHEETS

As at September 30, 2020	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)
	IFRS	NCI Share	Equity Interest	IFRIC 21	
ASSETS					
Non-current assets					
Real estate properties	\$3,009,942	(\$194,559)	\$261,702	(\$6,629)	\$3,070,456
Equity-accounted investments	106,768	—	(106,768)	—	—
	3,116,710	(194,559)	154,934	(6,629)	3,070,456
Current assets					
Amounts receivable	5,653	(565)	755	—	5,843
Prepaid expenses	11,068	(330)	403	—	11,141
Restricted cash	9,169	(139)	1,711	—	10,741
Cash	34,615	(700)	3,416	—	37,331
	60,505	(1,734)	6,285	—	65,056
	\$3,177,215	(\$196,293)	\$161,219	(\$6,629)	\$3,135,512
LIABILITIES AND EQUITY					
Non-current liabilities					
Mortgages payable and Class C LP Units	\$1,144,907	(\$99,847)	\$156,572	\$—	\$1,201,632
Convertible debentures	84,220	—	—	—	84,220
Class B LP Units	249,735	—	—	—	249,735
Deferred income tax liabilities	129,323	—	—	—	129,323
Accounts payable and accrued liabilities	9,537	—	—	—	9,537
	1,617,722	(99,847)	156,572	—	1,674,447
Current liabilities					
Mortgages payable and Class C LP Units	106,889	(518)	—	—	106,371
Morguard Facility	553	—	—	—	553
Accounts payable and accrued liabilities	57,442	(4,006)	4,647	(6,629)	51,454
	164,884	(4,524)	4,647	(6,629)	158,378
Total liabilities	1,782,606	(104,371)	161,219	(6,629)	1,832,825
EQUITY					
Unitholders' equity	1,302,687	—	—	—	1,302,687
Non-controlling interest	91,922	(91,922)	—	—	—
Total equity	1,394,609	(91,922)	—	—	1,302,687
	\$3,177,215	(\$196,293)	\$161,219	(\$6,629)	\$3,135,512

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 September 30, 2020	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)
	IFRS	NCI Share	Equity Interest	IFRIC 21	
Total Assets / Gross book value⁽¹⁾	\$3,177,215	(\$196,293)	\$161,219	(\$6,629)	\$3,135,512
Mortgage payable and Class C LP Units	\$1,251,796	(\$100,365)	\$156,572	\$—	\$1,308,003
Add: deferred financing costs	10,984	(360)	796	—	11,420
	1,262,780	(100,725)	157,368	—	1,319,423
Convertible debentures, face value	85,500	—	—	—	85,500
Morguard Facility	553	—	—	—	553
Lease liability	9,537	—	—	—	9,537
Indebtedness	\$1,358,370	(\$100,725)	\$157,368	\$—	\$1,415,013
Indebtedness / Gross book value	42.8%				45.1%

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

STATEMENTS OF INCOME (LOSS)

For the three months ended September 30 (In thousands of dollars)	2020					2019				
	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)
	IFRS	NCI Share	Equity Interest	IFRIC 21		IFRS	NCI Share	Equity Interest	IFRIC 21	
Revenue from properties										
Same Property	\$62,159	(\$3,590)	\$1,764	\$—	\$60,333	\$61,135	(\$3,688)	\$1,665	\$—	\$59,112
Acquisitions	—	—	3,029	—	3,029	—	—	—	—	—
Total revenue from properties	62,159	(3,590)	4,793	—	63,362	61,135	(3,688)	1,665	—	59,112
Property operating expenses										
Same Property										
Operating costs	16,358	(959)	566	—	15,965	16,205	(859)	470	—	15,816
Realty taxes	2,617	(16)	1	5,266	7,868	2,775	(209)	—	4,991	7,557
Utilities	4,388	(150)	131	—	4,369	4,117	(109)	58	—	4,066
Same Property	23,363	(1,125)	698	5,266	28,202	23,097	(1,177)	528	4,991	27,439
Acquisitions	—	—	856	582	1,438	—	—	—	—	—
Total property operating expenses	23,363	(1,125)	1,554	5,848	29,640	23,097	(1,177)	528	4,991	27,439
NOI										
Same Property	38,796	(2,465)	1,066	(5,266)	32,131	38,038	(2,511)	1,137	(4,991)	31,673
Acquisitions	—	—	2,173	(582)	1,591	—	—	—	—	—
Total NOI⁽¹⁾	38,796	(2,465)	3,239	(5,848)	33,722	38,038	(2,511)	1,137	(4,991)	31,673
Other expenses (income)										
Interest expense	15,794	(926)	1,356	—	16,224	18,114	(921)	438	—	17,631
Trust expenses	3,628	(68)	181	—	3,741	3,433	(68)	56	—	3,421
Equity loss (income) from investments	4,109	—	(4,109)	—	—	(37)	—	37	—	—
Foreign exchange loss (gain)	446	—	—	—	446	(207)	—	—	—	(207)
Other expense (income)	460	—	—	—	460	(479)	—	—	—	(479)
Income before fair value changes and income taxes	14,359	(1,471)	5,811	(5,848)	12,851	17,214	(1,522)	606	(4,991)	11,307
Fair value gain on real estate properties, net	41,141	(93)	(5,811)	5,848	41,085	9,842	979	(606)	4,991	15,206
Fair value gain (loss) on Class B LP Units	1,550	—	—	—	1,550	(24,629)	—	—	—	(24,629)
Income before income taxes	57,050	(1,564)	—	—	55,486	2,427	(543)	—	—	1,884
Provision for income taxes										
Current	30	—	—	—	30	33	—	—	—	33
Deferred	3,548	—	—	—	3,548	3,801	—	—	—	3,801
	3,578	—	—	—	3,578	3,834	—	—	—	3,834
Net income (loss) for the period	\$53,472	(\$1,564)	\$—	\$—	\$51,908	(\$1,407)	(\$543)	\$—	\$—	(\$1,950)
(1) NOI included the following:										
IFRIC 21	(\$5,598)	\$606	(\$856)	\$5,848	\$—	(\$5,234)	\$515	(\$272)	\$4,991	\$—

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

For the three months ended September 30 (In thousands of dollars)	2020					2019				
	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)
	IFRS	NCI Share	Equity Interest	IFRIC 21		IFRS	NCI Share	Equity Interest	IFRIC 21	
NOI	\$38,796	(\$2,465)	\$3,239	(\$5,848)	\$33,722	\$38,038	(\$2,511)	\$1,137	(\$4,991)	\$31,673
IFRIC 21 adjustment	(5,598)	606	(856)	5,848	—	(5,234)	515	(272)	4,991	—
Trust expenses	(3,628)	68	(181)	—	(3,741)	(3,433)	68	(56)	—	(3,421)
Other income (expense)	(460)	—	—	—	(460)	479	—	—	—	479
	\$29,110	(\$1,791)	\$2,202	\$—	\$29,521	\$29,850	(\$1,928)	\$809	\$—	\$28,731
Interest expense	\$15,794	(\$926)	\$1,356	\$—	\$16,224	\$18,114	(\$921)	\$438	\$—	\$17,631
Fair value gain (loss) on conversion option on the convertible debentures	194	—	—	—	194	(2,157)	—	—	—	(2,157)
Distributions on Class B LP Units	(3,012)	—	—	—	(3,012)	(2,924)	—	—	—	(2,924)
	\$12,976	(\$926)	\$1,356	\$—	\$13,406	\$13,033	(\$921)	\$438	\$—	\$12,550
Interest coverage ratio	2.24				2.20	2.29				2.29
Indebtedness coverage ratio	1.53				1.53	1.61				1.59

STATEMENTS OF INCOME (LOSS) (CONTINUED)

For the nine months ended September 30 (In thousands of dollars)	2020					2019				
	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)
	IFRS	NCI Share	Equity Interest	IFRIC 21		IFRS	NCI Share	Equity Interest	IFRIC 21	
Revenue from properties										
Same Property	\$186,440	(\$10,809)	\$5,399	\$—	\$181,030	\$181,054	(\$10,930)	\$5,076	\$—	\$175,200
Acquisitions / Dispositions	1,218	—	9,931	—	11,149	3,299	(651)	—	—	2,648
Total revenue from properties	187,658	(10,809)	15,330	—	192,179	184,353	(11,581)	5,076	—	177,848
Property operating expenses										
Same Property										
Operating costs	47,149	(2,675)	1,518	—	45,992	45,956	(2,598)	1,597	—	44,955
Realty taxes	29,718	(2,366)	1,106	(5,379)	23,079	29,352	(2,471)	1,092	(5,114)	22,859
Utilities	12,989	(444)	347	—	12,892	12,993	(409)	396	—	12,980
Same Property	89,856	(5,485)	2,971	(5,379)	81,963	88,301	(5,478)	3,085	(5,114)	80,794
Acquisitions / Dispositions	461	—	4,886	(576)	4,771	2,188	(248)	—	(408)	1,532
Total property operating expenses	90,317	(5,485)	7,857	(5,955)	86,734	90,489	(5,726)	3,085	(5,522)	82,326
NOI										
Same Property	96,584	(5,324)	2,428	5,379	99,067	92,753	(5,452)	1,991	5,114	94,406
Acquisitions / Dispositions	757	—	5,045	576	6,378	1,111	(403)	—	408	1,116
Total NOI⁽¹⁾	97,341	(5,324)	7,473	5,955	105,445	93,864	(5,855)	1,991	5,522	95,522
Other expenses (income)										
Interest expense	45,562	(2,824)	4,128	—	46,866	52,124	(2,899)	1,309	—	50,534
Trust expenses	11,659	(216)	529	—	11,972	10,633	(215)	166	—	10,584
Equity loss (income) from investments	2,546	—	(2,546)	—	—	(2,165)	—	2,165	—	—
Foreign exchange loss (gain)	(517)	—	—	—	(517)	486	—	—	—	486
Other income	(632)	—	—	—	(632)	(630)	—	—	—	(630)
Income before fair value changes and income taxes	38,723	(2,284)	5,362	5,955	47,756	33,416	(2,741)	(1,649)	5,522	34,548
Fair value gain on real estate properties, net	74,228	367	(5,362)	(5,955)	63,278	68,427	749	1,649	(5,522)	65,303
Fair value gain (loss) on Class B LP Units	68,720	—	—	—	68,720	(46,502)	—	—	—	(46,502)
Income before income taxes	181,671	(1,917)	—	—	179,754	55,341	(1,992)	—	—	53,349
Provision for income taxes										
Current	98	—	—	—	98	99	—	—	—	99
Deferred	11,677	—	—	—	11,677	11,011	—	—	—	11,011
	11,775	—	—	—	11,775	11,110	—	—	—	11,110
Net income for the period	\$169,896	(\$1,917)	\$—	\$—	\$167,979	\$44,231	(\$1,992)	\$—	\$—	\$42,239
(1) NOI included the following:										
IFRIC 21	\$5,707	(\$599)	\$847	(\$5,955)	\$—	\$5,847	(\$598)	\$273	(\$5,522)	\$—

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

For the nine months ended September 30 (In thousands of dollars)	2020					2019				
	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)	Non-IFRS Adjustments				Proportionate Basis (Non-IFRS)
	IFRS	NCI Share	Equity Interest	IFRIC 21		IFRS	NCI Share	Equity Interest	IFRIC 21	
NOI	\$97,341	(\$5,324)	\$7,473	\$5,955	\$105,445	\$93,864	(\$5,855)	\$1,991	\$5,522	\$95,522
IFRIC 21 adjustment	5,707	(599)	847	(5,955)	—	5,847	(598)	273	(5,522)	—
Trust expenses	(11,659)	216	(529)	—	(11,972)	(10,633)	215	(166)	—	(10,584)
Other income	632	—	—	—	632	630	—	—	—	630
	\$92,021	(\$5,707)	\$7,791	\$—	\$94,105	\$89,708	(\$6,238)	\$2,098	\$—	\$85,568
Interest expense	\$45,562	(\$2,824)	\$4,128	\$—	\$46,866	\$52,124	(\$2,899)	\$1,309	\$—	\$50,534
Loss on extinguishment of mortgages	—	—	—	—	—	(561)	—	—	—	(561)
Fair value gain (loss) on conversion option on the convertible debentures	2,662	—	—	—	2,662	(3,383)	—	—	—	(3,383)
Distributions on Class B LP Units	(9,037)	—	—	—	(9,037)	(8,773)	—	—	—	(8,773)
	\$39,187	(\$2,824)	\$4,128	\$—	\$40,491	\$39,407	(\$2,899)	\$1,309	\$—	\$37,817
Interest coverage ratio	2.35				2.32	2.28				2.26
Indebtedness coverage ratio	1.60				1.61	1.60				1.57

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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		Nine months ended	
	September 30		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		Nine months ended	
	September 30		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		Nine months ended	
	September 30		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.