



Real Estate Potential. **Realized.**

MORGUARD NORTH AMERICAN
RESIDENTIAL REAL ESTATE
INVESTMENT TRUST

DECEMBER 31, 2022

CONSOLIDATED
FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Morguard North American Residential Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Valuation of real estate properties

Key Audit Matter	How our audit addressed the key audit matter
<p>The REIT's real estate property portfolio comprises income producing properties with a fair value of \$3.6 billion which represents 92% of total assets as at December 31, 2022.</p> <p>Fair value of real estate properties is based on external and internal valuations, carried out by third party and certified staff appraisers respectively, using recognized valuation techniques. The valuation methodology for these real estate properties is primarily based on an income approach, utilizing the direct capitalization method. Recent real estate transactions with characteristics and locations similar to the REIT's assets are also considered when developing the valuations.</p> <p>Note 2 of the consolidated financial statements describes the accounting policy for real estate properties, including the valuation method and valuation inputs.</p> <p>Note 3 of the consolidated financial statements discloses the sensitivity of the fair value of real estate properties to a change in capitalization rates.</p> <p>The valuation of the REIT's real estate property portfolio is a key audit matter given the inherently subjective nature of significant assumptions including capitalization rates, and assumptions involved in determining stabilized net operating income, including vacancy and rental income. These assumptions are influenced by property specific characteristics including location, type and quality of the properties.</p>	<p>With the assistance of our real estate valuation specialists, we evaluated the appropriateness of the underlying valuation methodology, and performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We assessed the competence and objectivity of management's valuation team, and any third-party appraisers engaged, by reviewing the qualifications and expertise of the individuals involved in the preparation and review of the valuations. • We selected a sample of properties where either the fair value change from prior year or significant assumptions fell outside our expectations, based on our understanding of the geographical real estate market for the specific asset type. For this sample of real estate properties, we evaluated the significant assumptions, including capitalization rates and stabilized net operating income which includes vacancy and rental income, by comparison to the expected real estate market benchmark range for similar assets, in similar locations. We also considered whether there were any additional asset-specific characteristics that may impact the significant assumptions utilized and that these were appropriately considered in the overall assessment of fair value. • We assessed the accuracy of management's historical fair value estimates through comparison to transactions to acquire and dispose of interests in real estate properties completed by the REIT during the year. • We evaluated the REIT's critical accounting policies and related disclosures in the consolidated financial statements to assess appropriateness and conformity with IFRSs.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Kim Tang.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 14, 2023

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31	Note	2022	2021
ASSETS			
Non-current assets			
Real estate properties	3	\$3,626,853	\$3,256,158
Equity-accounted investments	5	105,462	96,376
		3,732,315	3,352,534
Current assets			
Morguard Facility	9	80,695	70,000
Amounts receivable		11,402	7,188
Prepaid expenses		6,373	5,202
Restricted cash	3	88,996	11,801
Cash		14,636	26,562
		202,102	120,753
		\$3,934,417	\$3,473,287
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable	6	\$1,247,355	\$1,191,578
Convertible debentures	7	—	86,319
Class B LP Units	8	279,014	305,021
Deferred income tax liabilities	17	262,760	175,229
Lease liabilities	10	16,235	9,065
		1,805,364	1,767,212
Current liabilities			
Mortgages payable	6	134,819	96,977
Convertible debentures	7	85,126	—
Accounts payable and accrued liabilities	11	53,719	47,713
		273,664	144,690
Total liabilities		2,079,028	1,911,902
EQUITY			
Unitholders' equity		1,753,475	1,484,738
Non-controlling interest		101,914	76,647
Total equity		1,855,389	1,561,385
		\$3,934,417	\$3,473,287

Commitments and contingencies 21

See accompanying notes to the consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Trustee

(Signed) "Mel Leiderman"

Mel Leiderman,
Trustee

STATEMENTS OF INCOME

In thousands of Canadian dollars

For the years ended December 31	Note	2022	2021
Revenue from real estate properties	13	\$278,491	\$245,566
Property operating expenses			
Property operating costs		(74,226)	(65,645)
Realty taxes		(33,080)	(32,522)
Utilities		(19,970)	(17,904)
Net operating income		151,215	129,495
Other expenses (income)			
Interest expense	14	63,681	65,719
Trust expenses	15	19,356	14,392
Equity income from investments	5	(3,822)	(2,691)
Foreign exchange loss (gain)		(69)	15
Other income	9	(3,549)	(83)
Income before fair value changes and income taxes		75,618	52,143
Fair value gain on real estate properties, net	3	208,275	288,662
Fair value gain (loss) on Class B LP Units	8	26,007	(30,313)
Income before income taxes		309,900	310,492
Provision for income taxes	17		
Current		132	126
Deferred		70,205	65,392
		70,337	65,518
Net income for the year		\$239,563	\$244,974
Net income attributable to:			
Unitholders		\$219,282	\$242,088
Non-controlling interest		20,281	2,886
		\$239,563	\$244,974

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the years ended December 31	2022	2021
Net income for the year	\$239,563	\$244,974
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to net income:		
Unrealized foreign currency translation gain (loss)	82,290	(1,191)
Total comprehensive income for the year	\$321,853	\$243,783
Total comprehensive income attributable to:		
Unitholders	\$295,402	\$241,175
Non-controlling interest	26,451	2,608
	\$321,853	\$243,783

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Units	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Unitholders' Equity	Non-controlling Interest	Total Equity
Unitholders' equity, December 31, 2020		\$469,210	\$48,762	\$682,824	\$69,333	\$1,270,129	\$77,490	\$1,347,619
Changes during the year:								
Net income		—	—	242,088	—	242,088	2,886	244,974
Other comprehensive loss		—	—	—	(913)	(913)	(278)	(1,191)
Issue of Units - DRIP		749	—	(749)	—	—	—	—
Distributions		—	—	(26,566)	—	(26,566)	(3,451)	(30,017)
Unitholders' equity, December 31, 2021		\$469,959	\$48,762	\$897,597	\$68,420	\$1,484,738	\$76,647	\$1,561,385
Changes during the year:								
Net income		—	—	219,282	—	219,282	20,281	239,563
Other comprehensive income		—	—	—	76,120	76,120	6,170	82,290
Issue of Units - DRIP	12(d)	815	—	(815)	—	—	—	—
Distributions	12(d)	—	—	(26,665)	—	(26,665)	(1,184)	(27,849)
Unitholders' equity, December 31, 2022		\$470,774	\$48,762	\$1,089,399	\$144,540	\$1,753,475	\$101,914	\$1,855,389

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the years ended December 31	Note	2022	2021
OPERATING ACTIVITIES			
Net income		\$239,563	\$244,974
Add (deduct) items not affecting cash	18(a)	(164,912)	(186,584)
Additions to tenant incentives		(934)	(1,721)
Distributions from equity-accounted investments	5	1,796	283
Net change in non-cash operating assets and liabilities	18(b)	(340)	6,744
Cash provided by operating activities		75,173	63,696
INVESTING ACTIVITIES			
Proceeds from sale of income producing properties, net	3	250,857	—
Acquisition of income producing properties	3	(221,096)	—
Additions to real estate properties	3	(40,819)	(30,012)
Contributions to equity-accounted investments	5	—	(1,288)
Cash used in investing activities		(11,058)	(31,300)
FINANCING ACTIVITIES			
Proceeds from new mortgages	3, 6	212,633	194,207
Financing cost on new mortgages		(2,507)	(4,647)
Repayment of mortgages			
Principal instalment repayments		(32,535)	(26,573)
Repayment on maturity	6	(78,271)	(2,424)
Repayment due to mortgage extinguishment	3	(65,075)	—
Redemption of Class C LP Units including tax payment	6	—	(84,690)
Principal payment of lease liabilities	10	(8)	—
Proceeds from Morguard Facility		74,786	63,938
Advances on and repayments of Morguard Facility		(83,661)	(140,359)
Distributions to Unitholders		(26,665)	(26,564)
Distributions to non-controlling interest		(1,184)	(3,451)
Increase in restricted cash	3	(76,393)	(2,490)
Cash used in financing activities		(78,880)	(33,053)
Net decrease in cash during the year		(14,765)	(657)
Net effect of foreign currency translation on cash balance		2,839	(85)
Cash, beginning of year		26,562	27,304
Cash, end of year		\$14,636	\$26,562

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 2022 and 2021

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 most recently amended and restated on February 16, 2021 (the “Declaration of Trust”), under and governed by the laws of the Province of Ontario. The trust units of the REIT (“Units”) trade on the Toronto Stock Exchange (“TSX”) under the symbol “MRG.UN.” The REIT invests in multi-suite residential rental properties in Canada and the United States. The REIT’s head office is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3.

The REIT holds its investments in its real estate properties through its ownership in Morguard NAR Canada Limited Partnership (the “Partnership”). As at December 31, 2022, Morguard Corporation (“Morguard”), the parent company of the REIT, holds an indirect 44.7% (2021 - 44.7%) interest through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved and authorized for issue by the Board of Trustees on February 14, 2023.

Basis of Presentation

The REIT’s consolidated financial statements are prepared on a going-concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The consolidated financial statements are prepared on a historical cost basis, except for real estate properties and certain financial instruments that are measured at fair value. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

Basis of Consolidation

The REIT holds its interest in the real estate properties and other assets and liabilities related to these properties directly or indirectly through the Partnership. The consolidated financial statements include the financial statements of the REIT, as well as the entities that are controlled by the REIT (“subsidiaries”). The REIT controls an entity when the REIT is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date of acquisition or the date on which the REIT obtains control and are deconsolidated from the date that control ceases. Intercompany transactions, balances, unrealized losses and unrealized gains on transactions between the REIT and its subsidiaries are eliminated.

Non-controlling Interest

Non-controlling interests represent equity interests in subsidiaries that are not attributable to the REIT. For all of the REIT’s subsidiaries, the share of the net assets of the subsidiaries that is attributable to non-controlling interest is presented as a component of equity.

Income Producing Properties

Income producing properties include multi-suite residential properties held to earn rental income. An income producing property that is acquired as an asset purchase and not as a business combination is recorded initially at cost, including transaction costs. Transaction costs include transfer taxes and professional fees for legal and other services.

Subsequent to initial recognition, income producing properties are recorded at fair value. The changes in fair value for each reporting period will be recorded in the consolidated statements of income. In order to avoid double

counting, the carrying value of income producing properties includes all capital expenditures associated with upgrading and extending the economic life of the existing properties since these amounts are incorporated in the appraised values of the income producing properties. Fair value is based on valuations using the direct capitalization income method. Recent real estate transactions with characteristics and locations similar to the REIT's assets are also considered. The direct capitalization income method applies a capitalization rate to the property's stabilized net operating income, which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the property. The resulting appraised value is further adjusted, where appropriate, for non-recurring costs to stabilize the income.

Interests in Joint Arrangements

The REIT reviews its interests in joint arrangements and accounts for those joint arrangements in which the REIT is entitled only to the net assets of the arrangement as joint ventures using the equity method of accounting; and for those joint arrangements in which the REIT is entitled to its share of the assets and liabilities as joint operations and recognizes its rights to and obligations of the assets, liabilities, revenue and expenses of the joint operation.

Classification of Units and Class B LP Units

Units

Units meet the definition of a financial liability under IFRS as the redemption feature of the Units creates an unavoidable contractual obligation to pay cash (or another financial instrument such as notes payable, if redemptions exceed \$50 in a given month).

Units are redeemable at the option of the holder and, therefore, are considered "puttable instruments" in accordance with International Accounting Standard ("IAS") 32, Financial Instruments - Presentation ("IAS 32"). IAS 32 allows puttable instruments to be presented as equity, provided the instrument meets all of the following conditions: (i) it must entitle the holder to a *pro rata* share of the entity's net assets in the event of the entity's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in point (ii) must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instruments must be based substantially on the profit or loss of the entity or change in fair value of the entity over the life of the instrument. The Units meet these criteria and, accordingly, are presented as equity in the consolidated financial statements, and the distributions declared on the Units are deducted from retained earnings.

Class B LP Units

The Class B limited partnership units of the Partnership ("Class B LP Units") are exchangeable into Units at the option of the holder. As a result of this obligation, the Class B LP Units are exchangeable into a liability (as the Units are a liability by definition) and do not qualify for the exception in IAS 32 to be presented as equity. Accordingly, the Class B LP Units are also considered to be a liability, measured at fair value, with changes in fair value recognized in the consolidated statements of income. The distributions paid on the Class B LP Units are classified as interest expense in the consolidated statements of income.

Financial Instruments

Recognition and Measurement of Financial Instruments

Financial assets must be classified and measured on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Initially, all financial assets and financial liabilities are recorded in the consolidated balance sheets at fair value. After initial recognition, the effective interest related to financial assets and liabilities measured at amortized cost and the gain or loss arising from the change in the fair value of financial assets or liabilities classified as FVTPL are included in net income for the year in which they arise. At each consolidated balance sheet date, financial assets measured at amortized cost or at FVTOCI, except for investment in equity instruments, require an impairment analysis using the expected credit loss model ("ECL model") to determine the expected credit losses using judgment determined on a probability weighting basis.

The following summarizes the REIT's classification and measurement of financial assets and liabilities:

Financial Assets	
Amounts receivable	Amortized cost
Morguard Facility	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial Liabilities	
Mortgages payable	Amortized cost
Convertible debentures, excluding conversion option	Amortized cost
Morguard Facility	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liability	Amortized cost
Conversion option of convertible debentures	FVTPL
Class B LP Units	FVTPL

Transaction Costs

Direct and indirect financing costs that are attributable to the issue of financial liabilities measured at amortized cost are presented as a reduction from the carrying amount of the related debt and are amortized using the effective interest rate method over the term of the related debt. These costs include interest, amortization of discounts or premiums relating to borrowings, fees and commissions paid to lenders, agents, brokers and advisers, and transfer taxes and duties that are incurred in connection with the arrangement of borrowings.

Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

Fair value measurements recognized in the consolidated balance sheets are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value measurement is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with remaining maturities at the time of acquisition of three months or less.

Convertible Debentures

Convertible debentures issued by the REIT are convertible into Units at the option of the holder, and the number of Units to be issued does not vary with changes in their fair value.

Upon issuance, convertible debentures are separated into their debt and conversion feature components. The debt component of the convertible debentures is recognized initially at the fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature component of the convertible debentures is recognized at fair value using the Black-Scholes option pricing model as at each consolidated balance sheet date. The convertible debentures are convertible into Units at the holder's option. As a result of this obligation, the convertible debentures are exchangeable into a liability

since the Units are puttable instruments that meet the definition of a financial liability under IAS 32. Accordingly, the conversion feature component of the convertible debentures is recorded in the consolidated balance sheets as a liability measured at fair value, with changes in fair value recognized in the consolidated statements of income.

Any directly attributable transaction costs are allocated to the debt and conversion components of the convertible debentures in proportion to their initial carrying amounts.

Revenue Recognition

Revenue from income producing properties includes rents from tenants under leases and property management and ancillary income (such as utilities, parking and laundry) paid by the tenants under the terms of their existing leases. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the REIT expects to be entitled in exchange for those goods or services. The REIT has not transferred substantially all of the risks and benefits of ownership of its income producing properties and, therefore, accounts for leases with its tenants as operating leases.

Rental income from tenants under leases include lease components within the scope of IFRS 16, Leases (“IFRS 16”), and are comprised of rental income and a recovery of property taxes and insurance. Rental income is accounted for on a straight-line basis over the lease terms. Property tax and insurance recoveries are recognized as income in the period in which they are earned. Any suite-specific incentives offered or initial direct costs incurred in negotiating and arranging an operating lease are reflected in the consolidated balance sheets in the carrying value of income producing properties and are amortized over the term of the operating lease and recognized in the consolidated statements of income on a straight-line basis.

Property management and ancillary income are considered non-lease components and are within the scope of IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). The performance obligation for property management and ancillary services is satisfied over time. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is separated into more than one performance obligation, the REIT allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach. The REIT applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Income Taxes

The REIT is a “mutual fund trust” pursuant to the *Income Tax Act* (Canada) (the “Act”). Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes, provided that its taxable income is fully distributed to Unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions of not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes in Canada. Accordingly, no current or deferred income taxes have been recorded in the consolidated financial statements for the REIT’s Canadian properties.

The REIT’s U.S. properties are held by U.S. subsidiaries that are taxable legal entities. The REIT uses the liability method of accounting for U.S. income taxes. Under the liability method of tax allocation, current income tax assets and liabilities are based on the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted as at the consolidated balance sheet dates. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amounts of deferred income tax assets are reviewed as at each consolidated balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

In accordance with IAS 12, Income Taxes (“IAS 12”), the REIT measures deferred income tax assets and liabilities on its U.S. real estate properties based on the rebuttable presumption that the carrying amount of the real estate property is recovered through sale, as opposed to presuming that the economic benefits of the real estate

property will be substantially consumed through use over time. This presumption is rebutted if the property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the income producing property over time rather than through sale.

Foreign Exchange

The operations of the REIT's U.S.-based subsidiaries are in United States dollars, which is the functional currency of the foreign subsidiaries. Accordingly, the assets and liabilities of foreign subsidiaries are translated into Canadian dollars at the exchange rate as at the consolidated balance sheet dates. Revenue and expenses are translated at the average rate of exchange for the year. The resulting gains and losses are recorded in other comprehensive income ("OCI"). Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the reporting date. Exchange differences are recognized in profit or loss, except for exchange differences arising from a monetary item receivable from or payable to a foreign subsidiary, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign subsidiary. These exchange differences are recognized in OCI until the disposal of the net investment, at which time they are reclassified to profit or loss.

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

	2022	2021
Canadian dollar to United States dollar exchange rates:		
- As at December 31	\$0.7383	\$0.7888
- Average for the year ended December 31	0.7686	0.7978
United States dollar to Canadian dollar exchange rates:		
- As at December 31	1.3544	1.2678
- Average for the year ended December 31	1.3011	1.2535

Distributions

Distributions are recognized as a deduction from retained earnings for the Units classified as equity and as interest expense for Class B LP Units classified as a liability.

Reportable Operating Segments

Reportable operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The REIT has determined that its chief operating decision-maker is the Chairman and Chief Executive Officer.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments that have been made in applying the REIT's accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

Income Producing Properties

The REIT's accounting policies relating to income producing properties are described above. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. The key assumptions in the valuation of the REIT's income producing properties are further defined in Note 3.

Joint Arrangements

The REIT applies judgment to determine whether the joint arrangements provided it with joint control, significant influence or no influence and whether the arrangements are joint operations or joint ventures.

Basis of Consolidation

The REIT's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining whether "control" exists within the framework of IFRS 10, Consolidated Financial Statements.

Revenue Recognition

The REIT applies judgment about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The REIT concluded that revenue for property management and ancillary services is to be recognized over time because the tenant simultaneously receives and consumes the benefits provided by the REIT. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is identified as containing more than one performance obligation, the REIT allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach.

Income Taxes

Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes, provided that its taxable income is fully distributed to Unitholders during the year. The REIT is a real estate investment trust if it meets prescribed conditions under the Act relating to the nature of its assets and revenue (the “REIT Conditions”). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT’s Canadian assets and revenue, and it has determined that it qualifies as a real estate investment trust. The REIT expects to qualify as a real estate investment trust under the Act; however, should it no longer qualify, it would not be able to flow through its taxable income to Unitholders, and the REIT would, therefore, be subject to tax on its Canadian properties.

Critical Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods.

In determining estimates of fair market value for the REIT’s income producing properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Significant estimates used in determining fair value of the REIT’s income producing properties include capitalization rates and stabilized net operating income (which is primarily influenced by revenue growth, vacancy rates, inflation rates and operating costs). Should any of these underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of income producing properties are outlined in Note 3.

Future Accounting Policy Changes

Amendments to IAS 1, Classification of Liabilities as Current or Non-Current (“IAS 1”)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The amendments to IAS 1 are effective for reporting periods beginning on or after January 1, 2024 and are not expected to have a material impact on the REIT’s consolidated financial statements.

Amendments to IAS 1, Non-Current Liabilities with Covenants

The amendments aim to improve the information companies provide about long-term debt with covenants. The amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements.

The amendments to IAS 1 are effective for reporting periods beginning on or after January 1, 2024 and are not expected to have a material impact on the REIT’s consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 and IFRS Practice Statement 2 are effective for reporting periods beginning on or after January 1, 2023 and are not expected to have a material impact on the REIT's consolidated financial statements.

Amendments to IAS 8, Definition of Accounting Estimates ("IAS 8")

The amendments aim to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments to IAS 8 are effective for reporting periods beginning on or after January 1, 2023 and are not expected to have a material impact on the REIT's consolidated financial statements.

NOTE 3

REAL ESTATE PROPERTIES

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

As at December 31	2022	2021
Balance, beginning of year	\$3,256,158	\$2,941,241
Additions:		
Acquisition of income producing properties	221,096	—
Capital expenditures	40,819	30,012
Right-of-use assets (Note 10)	6,643	—
Dispositions	(250,857)	—
Fair value gain, net	208,253	288,662
Foreign currency translation	145,077	(4,200)
Other	(336)	443
Balance, end of year	\$3,626,853	\$3,256,158

Transactions completed during the year ended December 31, 2022

Acquisitions

On August 8, 2022, the REIT acquired a multi-suite residential property comprising 350 suites located in Chicago, Illinois ("Echelon Chicago"), for a purchase price of \$174,345 (US\$135,603), including closing costs, and was partially funded by a mortgage in the amount of \$96,008 (US\$74,674) at an interest rate of 4.71% for a term of seven years.

On September 26, 2022, the REIT acquired a retail property ("Rockville Town Square") comprising 186,712 square feet of commercial area located in Rockville, Maryland, for a purchase price of \$46,751 (US\$34,085), including closing costs. The retail property is part of a mixed-use complex where the REIT owns the residential property ("Fenestra at Rockville Town Square").

Dispositions

On June 6, 2022, the REIT sold a multi-suite residential property located in Atlanta, Georgia, comprising 292 suites, for net proceeds of \$93,165 (US\$74,152), including closing costs, and repaid the mortgage payable secured by the property in the amount of \$27,048 (US\$21,528).

On August 24, 2022, the REIT sold a multi-suite residential property located in Slidell, Louisiana, comprising 144 suites, for net proceeds of \$32,778 (US\$25,247), including closing costs, and repaid the mortgage payable secured by the property in the amount of \$9,972 (US\$7,681).

On October 6, 2022, the REIT sold a multi-suite residential property located in Coconut Creek, Florida, comprising 340 suites, for net proceeds of \$124,914 (US\$91,052), including closing costs, and repaid the mortgage payable secured by the property in the amount of \$28,055 (US\$20,450).

The REIT is pursuing a tax deferred exchange under Internal Revenue Code Section 1031 ("1031 Exchange") in connection with its U.S. property dispositions. Under a 1031 Exchange, subject to certain conditions, the REIT will be able to defer tax payable upon the acquisition of a replacement property. In addition, a 1031 Exchange

requires a qualified intermediary to hold the net sale proceeds until they are used to buy a replacement property or up to 180 days if no replacement property is acquired. As at December 31, 2022, net proceeds amounting to \$83,959 (US\$61,990) are held with a qualified intermediary and are presented as restricted cash on the consolidated balance sheets.

As at December 31, 2022, and 2021, the REIT had its portfolio appraised by Morguard's appraisal division. In addition, the REIT's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

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

Key assumptions used in determining the valuation of income producing properties include estimates of capitalization rates and stabilized net operating income (which is primarily influenced by revenue growth, vacancy rates, inflation rates and operating costs), pertain to forward-looking assumptions and market evidence, and accordingly could materially and adversely impact the underlying valuation of the REIT's income producing properties.

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

As at December 31, 2022, using the direct capitalization income approach, the properties were valued using capitalization rates in the range of 3.8% to 6.0% (2021 - 3.5% to 6.5%) applied to a stabilized net operating income of \$161,168 (2021 - \$140,018), resulting in an overall weighted average capitalization rate of 4.4% (2021 - 4.3%).

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

	December 31, 2022					December 31, 2021				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Canada										
Alberta	96.0%	96.0%	5.3%	5.3%	5.3%	96.0%	96.0%	5.0%	5.0%	5.0%
Ontario	97.5%	96.5%	4.3%	3.8%	3.9%	97.5%	96.0%	4.3%	3.5%	3.7%
United States										
Colorado	95.0%	95.0%	4.8%	4.8%	4.8%	95.0%	95.0%	4.8%	4.8%	4.8%
Texas	95.0%	95.0%	4.8%	4.5%	4.7%	95.0%	95.0%	4.8%	4.8%	4.8%
Louisiana	95.0%	95.0%	5.5%	5.5%	5.5%	95.0%	95.0%	6.5%	5.5%	5.7%
Illinois	95.0%	95.0%	4.8%	4.8%	4.8%	95.0%	95.0%	4.5%	4.5%	4.5%
Georgia	96.0%	95.0%	5.3%	4.8%	5.0%	96.0%	95.0%	5.3%	4.8%	5.1%
Florida	96.0%	93.6%	6.0%	4.5%	5.1%	96.0%	93.5%	6.0%	4.5%	5.1%
North Carolina	94.0%	94.0%	5.0%	4.8%	4.9%	94.0%	94.0%	5.0%	4.8%	4.9%
Virginia	95.0%	95.0%	4.5%	4.5%	4.5%	95.0%	95.0%	4.5%	4.5%	4.5%

Fair values are most sensitive to changes in capitalization rates and stabilized net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the real estate properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points (assuming no change to stabilized net operating income), the value of the real estate properties as at December 31, 2022 would decrease by \$189,521 or increase by \$212,295, respectively.

NOTE 4

SUBSIDIARIES WITH NON-CONTROLLING INTEREST

As at December 31, 2022, and 2021, the REIT owns a 51% effective interest in a limited partnership (the “LP”). The LP owns a garden-style property comprising 252 suites located in Cooper City, Florida (“2940 Solano at Monterra”), and a high-rise property comprising 515 suites and approximately 20,000 square feet of commercial area located in Chicago, Illinois (“Coast at Lakeshore East”).

The following summarizes the results of the REIT’s material subsidiaries with non-controlling interest before any intercompany eliminations and the corresponding non-controlling interest in the equity of the LP.

As at December 31	2022	2021
Non-current assets	\$399,006	\$339,770
Current assets	5,649	3,490
Total assets	\$404,655	\$343,260
Non-current liabilities	\$194,681	\$184,833
Current liabilities	9,797	10,176
Total liabilities	\$204,478	\$195,009
Equity	\$200,177	\$148,251
Non-controlling interest	\$98,087	\$72,643

For the years ended December 31	2022	2021
Revenue from income producing properties	\$30,113	\$25,891
Expenses	(20,717)	(21,026)
Fair value gain (loss) on income producing properties	32,357	(551)
Net income for the year	\$41,753	\$4,314
Non-controlling interest	\$20,459	\$2,114

For the years ended December 31	2022	2021
Cash provided by operating activities	\$8,551	\$6,085
Cash used in investing activities	(1,704)	(757)
Cash used in financing activities	(6,524)	(3,863)
Net increase in cash during the year	\$323	\$1,465

NOTE 5

EQUITY-ACCOUNTED INVESTMENTS

The following are the REIT’s equity-accounted investments as at December 31, 2022, and 2021:

Property	Principal Place of Business	Type	REIT’s Ownership		Carrying Value	
			December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Fenestra	Rockville, MD	Joint Venture	50%	50%	\$52,857	\$46,721
Marquee at Block 37	Chicago, IL	Joint Venture	50%	50%	52,605	49,655
					\$105,462	\$96,376

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

As at December 31	2022	2021
Balance, beginning of year	\$96,376	\$93,005
Additions	—	1,288
Distributions received	(1,796)	(283)
Share of net income	3,822	2,691
Foreign exchange gain (loss)	7,060	(325)
Balance, end of year	\$105,462	\$96,376

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

As at December 31	2022	2021
Non-current assets	\$515,080	\$485,315
Current assets	10,600	8,675
Total assets	\$525,680	\$493,990
Non-current liabilities	\$298,836	\$285,796
Current liabilities	15,920	15,442
Total liabilities	\$314,756	\$301,238
Net assets	\$210,924	\$192,752
Equity-accounted investments	\$105,462	\$96,376

For the years ended December 31	2022	2021
Revenue	\$41,786	\$34,396
Expenses	(30,090)	(30,887)
Fair value gain (loss) on income producing properties	(4,052)	1,873
Net income for the year	\$7,644	\$5,382
Income in equity-accounted investments	\$3,822	\$2,691

NOTE 6

MORTGAGES PAYABLE

Mortgages payable consists of the following:

As at December 31	2022	2021
Principal balance of mortgages	\$1,394,444	\$1,300,873
Deferred financing costs	(12,270)	(12,318)
	\$1,382,174	\$1,288,555
Current	\$134,819	\$96,977
Non-current	1,247,355	1,191,578
	\$1,382,174	\$1,288,555
Range of interest rates	2.03–5.79%	2.03–4.11%
Weighted average interest rate	3.50%	3.31%
Weighted average term to maturity (years)	4.9	5.0
Fair value of mortgages	\$1,291,966	\$1,335,670

On April 29, 2022, the REIT completed the refinancing of a multi-suite residential property located in West Palm Beach, Florida, in the amount of \$19,492 (US\$15,238) at an interest rate of 3.89% and for a term of 10 years. The maturing mortgage amounted to \$11,687 (US\$9,136), and had an interest rate of 3.96%.

On July 1, 2022, the REIT completed the refinancing of a multi-suite residential property located in Palm Beach County, Florida, in the amount of \$59,851 (US\$46,515) at an interest rate of 4.19% and for a term of 10 years. The maturing mortgage amounted to \$30,198 (US\$23,469), and had an interest rate of 3.78%.

On December 30, 2022, the REIT completed the refinancing of a multi-suite residential property located in Cooper City, Florida, in the amount of \$37,282 (US\$27,500) at a floating interest rate calculated at the 30-day average Secured Overnight Financing Rate (“SOFR”) plus 2.06% and for a term of five years. The maturing mortgage amounted to \$36,386 (US\$26,839), was open and prepayable at no penalty before its scheduled maturity on January 1, 2023, and had an interest rate of 3.86%.

The REIT’s first mortgages are registered against specific real estate assets and 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 as at December 31, 2022, 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
2023	\$30,538	\$106,787	\$137,325	3.36%
2024	27,949	140,446	168,395	3.28%
2025	20,595	183,293	203,888	3.27%
2026	14,856	168,383	183,239	3.24%
2027	13,353	90,557	103,910	4.64%
Thereafter	39,648	558,039	597,687	3.55%
	\$146,939	\$1,247,505	\$1,394,444	3.50%

Class C LP Units

During 2012, Morguard retained the mortgages on four properties (“Retained Debt”) that were sold to the REIT and also retained the deferred financing costs associated with the Retained Debt. Morguard remained responsible for the interest and principal payments on the Retained Debt, and the Retained Debt was secured by a charge on the properties. In consideration of the Retained Debt, Morguard received Class C limited partnership units of the Partnership (“Class C LP Units”) on which distribution payments were made in an amount expected to be sufficient to permit Morguard to satisfy amounts payable with respect to: (i) the principal and interest under the Retained Debt; and (ii) the amount of tax that is due and payable that is reasonably attributable to any redemption of and distributions on the Class C LP Units.

On November 10, 2021, the REIT completed the Canada Mortgage and Housing Corporation (“CMHC”) insured financing of four properties, located in Toronto and Mississauga, Ontario, providing gross mortgage proceeds of \$194,207 at a weighted average interest rate of 2.72% and for a weighted average term of 10.5 years. Concurrently, the REIT redeemed the Class C LP Units of the Partnership held by Morguard. The Retained Debt had a mortgage balance at maturity associated with the refinanced properties of \$74,180 at a weighted average interest rate of 3.97%, resulting in net proceeds of \$120,027, before financing costs and any associated tax payable.

At the time of redemption of the Class C LP Units, the present value of the REIT’s tax obligation on Class C LP Units amounted to \$12,934 compared to the carrying value of \$9,559, resulting in a loss on tax liability on redemption of Class C LP Units of \$3,775 (Note 14).

NOTE 7

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31	2022	2021
4.50% convertible unsecured subordinated debentures	\$85,223	\$85,223
Fair value of conversion option	94	2,028
Unamortized financing costs	(191)	(932)
	\$85,126	\$86,319
Current	\$85,126	\$—
Non-current	—	86,319
	\$85,126	\$86,319

For the year ended December 31, 2022, interest on the convertible debentures amounting to \$3,848 (2021 - \$3,848) is included in interest expense (Note 14). As at December 31, 2022, \$980 (2021 - \$980) is included in accounts payable and accrued liabilities.

4.50% Convertible Unsecured Subordinated Debentures

On February 13, 2018, the REIT issued \$75,000 principal amount of 4.50% convertible unsecured subordinated debentures (the “2018 Debentures”) maturing on March 31, 2023 (the “Maturity Date”). On February 21, 2018, an additional principal amount of \$10,500 was issued pursuant to the exercise of the over-allotment option. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year. The underwriters’ commissions, legal and other issue costs attributable to the 2018 Debentures in the amount of \$3,375 have been capitalized and are being amortized over their term to maturity. Morguard owns \$5,000 aggregate principal amount of the 2018 Debentures.

As at December 31, 2022, and 2021, \$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 the 2018 Debentures.

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 (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) on the date of redemption or maturity, as applicable.

NOTE 8

CLASS B LP UNITS

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

As at December 31, 2022, 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 \$279,014 (2021 - \$305,021) and a corresponding fair value gain for the year ended December 31, 2022 of \$26,007 (2021 - loss of \$30,313).

For the year ended December 31, 2022, distributions on Class B LP Units amounting to \$12,108 (2021 - \$12,049) are included in interest expense (Note 14).

As at December 31, 2022, and 2021, there were 17,223,090 Class B LP Units issued and outstanding.

NOTE 9

MORGUARD FACILITY

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

As part of Morguard’s asset management arrangement, Morguard will make payments on behalf of the REIT and charge the Morguard Facility. These transactions are reflected in the consolidated statements of cash flows. Borrowings under the Morguard Facility are considered to be financing activities.

As at December 31, 2022, the total amount receivable under the Morguard Facility was \$80,695 (2021 - \$70,000).

During the year ended December 31, 2022, the REIT recorded net interest income of \$2,982 (2021 - \$33) on the Morguard Facility.

NOTE 10

LEASE LIABILITIES

The following table presents the change in the balance of lease liabilities:

As at December 31	2022	2021
Balance, beginning of year	\$9,065	\$9,103
Interest on lease liabilities (Note 14)	565	429
Payments	(573)	(429)
Additions	6,643	—
Foreign exchange loss (gain)	535	(38)
	\$16,235	\$9,065

In connection with the acquisition of Rockville Town Square (Note 3), the REIT assumed a land lease with an annual lease payment of \$376, expiring on September 1, 2061. On acquisition of the property, the REIT recorded a lease liability and a corresponding right-of-use asset amounting to \$6,643 (US\$4,843).

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

As at December 31	2022	2021
Within 12 months	\$972	\$434
2 to 5 years	4,125	1,888
Over 5 years	27,915	10,445
Total minimum lease payments	33,012	12,767
Less: Future interest costs	(16,777)	(3,702)
Present value of minimum lease payments	\$16,235	\$9,065

NOTE 11

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at December 31	2022	2021
Accounts payable and accrued liabilities	\$44,982	\$36,056
Tenant deposits	8,737	11,657
	\$53,719	\$47,713

NOTE 12

UNITHOLDERS' EQUITY

(a) Units

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

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

(b) Normal Course Issuer Bids

On January 8, 2022, the REIT had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 1,478,869 Units and \$4,024 principal amount of the 2018 Debentures. The program expired on January 7, 2023. On January 6, 2023, the REIT obtained the approval of the TSX under its NCIB, commencing January 10, 2023, to purchase up to 1,474,371 Units, being approximately 5% of the public float of outstanding Units; the program expires on January 9, 2024. The daily repurchase restriction for the Units is 8,461. Additionally, the REIT may purchase up to \$4,024 principal amount of the 2018 Debentures, being 5% of the public float of outstanding 2018 Debentures. The daily repurchase restriction for the 2018 Debentures is \$12. The price that the REIT would pay for any such Units or 2018 Debentures would be the market price at the time of acquisition.

There were no repurchases of Units under the REIT's NCIB plan for the years ended December 31, 2022, and 2021.

(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, 2020, to December 31, 2022:

Issued and Fully Paid Units	Units	Amount
Balance, December 31, 2020	39,019,827	\$469,210
Units issued under the DRIP	44,438	749
Balance, December 31, 2021	39,064,265	469,959
Units issued under the DRIP	47,528	815
Balance, December 31, 2022	39,111,793	\$470,774

Total distributions declared during the year ended December 31, 2022, amounted to \$27,480, or \$0.7030 per Unit (2021 - \$27,315, or \$0.6996 per Unit), including distributions payable of \$2,347 that were declared on December 15, 2022, and paid on January 16, 2023. On January 16, 2023, the REIT declared a distribution of \$0.06 per Unit payable on February 15, 2023.

(e) Distribution Reinvestment Plan

Under the REIT's Distribution Reinvestment Plan ("DRIP"), Unitholders can elect to reinvest cash distributions into additional Units at a weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution. During the year ended December 31, 2022, the REIT issued 47,528 Units under the DRIP (2021 - 44,438 Units).

NOTE 13 RENTAL INCOME

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

For the years ended December 31	2022	2021
Rental income	\$141,147	\$123,004
Property management and ancillary income	96,637	83,885
Property tax and insurance	40,707	38,677
	\$278,491	\$245,566

NOTE 14 INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31	2022	2021
Interest on mortgages	\$45,465	\$38,807
Interest and tax payment on Class C LP Units	—	3,286
Interest on convertible debentures (Note 7)	3,848	3,848
Interest on lease liability (Note 10)	565	429
Amortization of deferred financing costs	2,707	2,371
Amortization of deferred financing costs on the convertible debentures (Note 7)	741	703
Fair value loss (gain) on conversion option on the convertible debentures (Note 7)	(1,934)	451
Loss on tax liability on redemption of Class C LP Units (Note 6)	—	3,775
Loss on extinguishment of mortgages payable	181	—
	51,573	53,670
Distributions on Class B LP Units (Note 8)	12,108	12,049
	\$63,681	\$65,719

NOTE 15 TRUST EXPENSES

The components of trust expenses are as follows:

For the years ended December 31	2022	2021
Asset management fees and distributions	\$16,579	\$11,944
Professional fees	1,209	915
Public company expenses	819	768
Other	749	765
	\$19,356	\$14,392

NOTE 16 RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 6, 7 and 8, related party transactions also include the following:

Agreements with Morguard Affiliates

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

Property Management

Pursuant to the Agreements, Morguard’s affiliates administer the day-to-day operations of the Canadian and U.S. income producing properties, for which Morguard’s affiliates receive partnership fees and distributions equal to 3.5% of gross property revenue of the income producing properties, payable monthly. For the year ended December 31, 2022, fees and distributions amounted to \$10,174 (2021 - \$8,970) and are included in property operating costs and equity income from investments. As at December 31, 2022, \$737 (2021 - \$583) is included in accounts payable and accrued liabilities.

Asset Management

Pursuant to the Agreements, Morguard's affiliates have certain duties and responsibilities for the strategic management and administration of the Partnership and its subsidiaries, for which they receive partnership fees and distributions equal to 0.25% of the Partnership's gross book value defined as acquisition cost of the REIT's assets plus: (i) fair value adjustments; and (ii) accumulated amortization on property, plant and equipment. In addition, an annual fee and distribution is calculated in arrears, determined by multiplying 15% of the Partnership's funds from operations in excess of \$0.66 per Unit. For the year ended December 31, 2022, fees and distributions amounted to \$17,193 (2021 - \$12,543) and are included in trust expenses and equity income from investments. As at December 31, 2022, \$3,210 (2021 - \$1,923) is included in accounts payable and accrued liabilities.

Acquisition

Pursuant to the Agreements, Morguard's affiliates are entitled to receive partnership fees with respect to properties acquired, directly or indirectly, by the REIT from third parties, and the fees are to be paid upon the closing of the purchase of each such property. The fees range from 0% of the purchase price paid for properties acquired directly or indirectly from Morguard, including entities controlled by Morguard, up to 0.75% of the purchase price paid for properties acquired from third parties. For the year ended December 31, 2022, fees relating to acquisition services amounted to \$1,581 (2021 - \$nil) and have been capitalized to income producing properties.

Financing

Pursuant to the Agreements, with respect to arranging for financing services, Morguard's affiliates are entitled to receive partnership fees equal to 0.15% of the principal amount and associated costs (excluding mortgage premiums) of any debt financing or refinancing. For the year ended December 31, 2022, fees relating to financing services amounted to \$325 (2021 - \$292) and have been capitalized to deferred financing costs.

Other Services

As at December 31, 2022, and 2021, the REIT had its portfolio appraised by Morguard's appraisal division. For the year ended December 31, 2022, fees relating to appraisal services amounted to \$212 (2021 - \$210) and are included in trust expenses.

Key Management Compensation

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

NOTE 17

INCOME TAXES

(a) Canadian Status

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

(b) U.S. Status

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

(c) Provision for Income Taxes

For the years ended December 31	2022	2021
Current income taxes	\$132	\$126
Deferred income taxes		
Impact of foreign tax rates	\$78,831	\$63,286
Impact of change in foreign tax rate	1,686	2,221
Recognition of the benefit of tax losses	(10,382)	—
Other	70	(115)
	\$70,205	\$65,392
Provision for income taxes	\$70,337	\$65,518

(d) The Major Components of Deferred Income Tax Liabilities

As at December 31	2022	2021
Real estate properties	\$286,096	\$186,352
Net operating losses	(15,078)	(8,760)
Interest expense limitation	(7,195)	(2,223)
Other	(1,063)	(140)
Total net deferred income tax liabilities	\$262,760	\$175,229

(e) The REIT's Tax Losses

As at December 31, 2022, the U.S. subsidiaries of the REIT have total net operating losses of approximately US\$nil (2021 - US\$34,067) of which no deferred tax assets were recognized as it is not probable that taxable profit will be available against such losses of which the deductible temporary difference can be utilized. The net operating losses expire in various years commencing in 2032.

As at December 31, 2022, the U.S. subsidiaries of the REIT have total net operating losses of approximately US\$44,622 (2021 - US\$27,780) of which deferred tax assets were recognized as it is probable that taxable profit will be available against such losses. The total net operating losses comprise US\$16,996 (2021 - US\$nil) that will expire in various years commencing in 2032 and US\$27,626 (2021 - US\$27,780) that can be carried forward indefinitely.

As at December 31, 2022, the REIT's U.S. subsidiaries have a total of US\$20,929 (2021 - US\$6,827) of unutilized interest expense deductions on which deferred tax assets were recognized.

NOTE 18

CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

For the years ended December 31	2022	2021
Fair value gain on real estate properties, net	(\$208,253)	(\$288,662)
Fair value loss (gain) on Class B LP Units	(26,007)	30,313
Fair value loss (gain) on conversion option on the convertible debentures	(1,934)	451
Equity income from investments	(3,822)	(2,691)
Amortization of deferred financing - mortgages	2,707	2,187
Amortization of deferred financing - Class C LP Units	—	184
Amortization of deferred financing - convertible debentures	741	703
Present value adjustment of tax liability on Class C LP Units	—	486
Loss on tax liability on redemption of Class C LP Units	—	3,775
Loss on extinguishment of mortgages payable	181	—
Amortization of tenant incentives	1,270	1,278
Deferred income taxes	70,205	65,392
	(\$164,912)	(\$186,584)

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

For the years ended December 31	2022	2021
Amounts receivable	(\$3,806)	(\$1,556)
Prepaid expenses	(891)	2,576
Accounts payable and accrued liabilities	4,357	5,724
	(\$340)	\$6,744

(c) Supplemental Cash Flow Information

For the years ended December 31	2022	2021
Interest paid	\$49,009	\$44,941

(d) Reconciliation of Liabilities Arising from Financing Activities

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

As at December 31, 2022	Mortgages Payable	Convertible Debentures	Lease Liability	Total
Balance, beginning of year	\$1,288,555	\$86,319	\$9,065	\$1,383,939
Repayments	(32,535)	—	(8)	(32,543)
New financing, net of financing costs	210,126	—	6,643	216,769
Lump-sum repayments	(143,346)	—	—	(143,346)
Non-cash changes	2,888	(1,193)	—	1,695
Foreign exchange	56,486	—	535	57,021
Balance, end of year	\$1,382,174	\$85,126	\$16,235	\$1,483,535

NOTE 19

MANAGEMENT OF CAPITAL

The REIT defines capital that it manages as the aggregate of its Unitholders' equity, Class B LP Units, mortgages payable, convertible debentures, Morguard Facility payable and lease liability. The REIT's objective when managing capital is to ensure that the REIT will continue as a going concern so that it can sustain daily operations and provide adequate returns to its Unitholders.

The REIT is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt. The REIT mitigates these risks by its continued efforts to stagger the maturity profile of its long-term debt, enhance the value of its real estate properties, maintain high occupancy levels and foster excellent relations with its lenders. The REIT manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the REIT as at December 31, 2022, and 2021, is summarized below:

As at December 31	2022	2021
Mortgages payable, principal balance	\$1,394,444	\$1,300,873
Convertible debentures, face value	85,500	85,500
Lease liabilities	16,235	9,065
Class B LP Units	279,014	305,021
Unitholders' equity	1,753,475	1,484,738
	\$3,528,668	\$3,185,197

The REIT's primary objectives when managing capital are to maximize Unit value through the ongoing active management of the REIT's assets and the acquisition of additional real estate properties, which are leased to creditworthy tenants, as opportunities arise.

The REIT's strategy is also driven by policies as set out in the Declaration of Trust, as well as requirements from certain lenders.

The requirements of the REIT's operating policies as outlined in the Declaration of Trust include requirements that the REIT will not:

- (a) Incur or assume indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of the REIT would be more than 70% of the gross book value (as defined in the Declaration of Trust) in accordance with IFRS; and
- (b) Incur indebtedness aggregating more than 20% of gross book value (as defined in the Declaration of Trust) in accordance with IFRS at floating interest rates or having maturities of less than one year.

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

As at December 31	Borrowing Limits	2022	2021
Total debt to gross book value	70%	38.0%	40.2%
Floating-rate debt to gross book value	20%	0.9%	—%

NOTE 20

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The REIT's financial assets and liabilities comprise cash, restricted cash, amounts receivable, the Morguard Facility, accounts payable and accrued liabilities, mortgages payable, Class B LP Units, lease liabilities and convertible debentures. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows.

Fair Value of Financial Assets and Liabilities

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

Mortgages payable, lease liabilities 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 value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2022, market rates for debts of similar terms (Level 2). Based on these assumptions, as at December 31, 2022, the fair value of the mortgages payable before deferred financing costs is estimated at \$1,291,966 (2021 - \$1,335,670). The fair value of the mortgages payable varies from the carrying value due to fluctuations in market interest rates since their issue.

The fair value of the convertible debentures are based on their market trading price (Level 1). As at December 31, 2022, the fair value of the convertible debentures before deferred financing costs has been estimated at \$85,081 (2021 - \$86,868), compared with the carrying value of \$85,223 (2021 - \$85,223).

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

The REIT's convertible debentures have no restrictive covenants.

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

	December 31, 2022			December 31, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Real estate properties	\$—	\$—	\$3,626,853	\$—	\$—	\$3,256,158
Financial liabilities:						
Class B LP Units	279,014	—	—	305,021	—	—
Conversion option of the convertible debentures	—	94	—	—	2,028	—

Risks Associated with Financial Assets and Liabilities

The REIT is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates and foreign exchange rates, credit risk and liquidity risk. The REIT's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the REIT's activities. The REIT aims to develop a disciplined control environment in which all employees understand their roles and obligations.

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices and comprises the following:

Interest Rate Risk

The REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be refinanced on terms as favourable as those of the existing indebtedness. For the year ended December 31, 2022, the increase or decrease in annual net income for each 1% change in interest rates on floating-rate debt would amount to \$372.

The REIT's objective when managing interest rate risk is to minimize the volatility of the REIT's income. As at December 31, 2022, interest rate risk has been minimized because substantially all of the long-term debt is financed at fixed interest rates with maturities scheduled over a number of years.

In addition, all mortgages on the Canadian properties are insured by the CMHC. This added level of insurance offered to lenders allows the REIT to receive advantageous interest rates while minimizing the risk of mortgage renewals or extensions.

Foreign Exchange Risk

The REIT is exposed to foreign exchange risk as it relates to its U.S. income producing properties due to fluctuations in the exchange rate between Canadian and United States dollars. Changes in the exchange rate may result in a reduction or an increase of reported earnings and OCI. For the year ended December 31, 2022, a \$0.05 change in the United States to Canadian dollar exchange rate would have resulted in approximately a change to net income or loss of \$10,749 and a change to OCI of \$35,713.

The REIT's objective when managing foreign exchange risk is to mitigate the exposure from fluctuations in the exchange rate by maintaining U.S. dollar-denominated debt against its U.S. assets, which amounted to US\$649,804 as at December 31, 2022 (2021 - US\$604,861). The REIT currently does not hedge translation exposures.

(b) Credit Risk

Credit risk is the risk that: (i) one party to a financial instrument will cause a financial loss for the REIT by failing to discharge its obligations; and (ii) the possibility that tenants may experience financial difficulty and be unable to meet their rental obligations.

The REIT is exposed to credit risk on all financial assets, and its exposure is generally limited to the carrying value of the financial assets. The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits as permitted by legislation and regionally diversifying its portfolio.

The REIT monitors its collection process on a month-to-month basis to ensure that a stringent policy is adopted to provide for all past due amounts. The REIT utilizes the simplified approach to measure expected credit losses under IFRS 9, which requires the REIT to recognize a lifetime expected credit loss allowance on all receivables at each reporting date and are provided for as bad debt expense in the consolidated statements of income within property operating costs. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against property operating costs in the consolidated statements of income.

The following table sets forth details of trade receivables and the related allowance for doubtful accounts:

As at December 31	2022	2021
Trade receivables	\$5,039	\$3,288
Less: Allowance for doubtful accounts	(1,537)	(1,282)
Total trade receivables, net	\$3,502	\$2,006

(c) Liquidity Risk

Liquidity risk is the risk the REIT will encounter difficulties in meeting its financial liability obligations. The REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced. The REIT's objectives in minimizing liquidity risk are to maintain appropriate levels of leverage on its real estate assets and to stagger the debt maturity profile. As at December 31, 2022, the REIT was holding cash of \$14,636 and had access to an additional \$19,305 through the Morguard Facility.

NOTE 21

COMMITMENTS AND CONTINGENCIES

(a) Land Leases

The REIT has classified its land leases as a lease liability under the assumption that substantially all the risks and rewards incidental to ownership have been transferred.

The minimum annual rental payments for the REIT's land leases are payable over the next five years and thereafter as follows:

2023	US\$718
2024	731
2025	772
2026	772
2027	772
Thereafter	99,671

The REIT assumed a land lease in connection with a property located in Falls Church, Virginia, that expires in 2113. The REIT has the option to purchase the land in September 2029 for US\$7,150.

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

Ground Lease #1	Annual rental expense
From October 1, 2019 to September 30, 2024	US\$342
From October 1, 2024 to September 30, 2029	396
Every 5 years thereafter	The greater of: (i) 1.1 times the rent for the fifteenth lease year (2029) and the last year of each fifth lease year increment thereafter until 2113; or (ii) Index Adjustment

The REIT assumed a land lease in connection with the acquisition of Rockville Town Square (Note 3) that expires on September 1, 2061.

Ground Lease #2	Annual rental expense
From September 1, 2022 to August 31, 2023	US\$376
Every year thereafter to September 1, 2061	Consumer Price Index Adjustment

(b) Other

The REIT is involved in litigation and claims in relation to income producing properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the final position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

In the Province of Ontario, the REIT is subject to, and believes it has complied with, the *Residential Tenancies Act, 2006* (Ontario). Each year, the Ontario government determines the province's residential rent increase for existing tenants. In 2022, the rental guideline increase was 1.2% (2021 - 0.0%).

NOTE 22

SEGMENTED INFORMATION

All of the REIT's assets and liabilities are in, and their revenue is derived from, the Canadian and U.S. multi-suite residential real estate segments. The Canadian properties are located in the provinces of Alberta and Ontario, and the U.S. properties are located in the states of Colorado, Texas, Louisiana, Illinois, Georgia, Florida, North Carolina, Virginia and Maryland. 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:

For the years ended	December 31, 2022			December 31, 2021		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenue from real estate properties	\$99,413	\$179,078	\$278,491	\$92,882	\$152,684	\$245,566
Property operating expenses	(44,736)	(82,540)	(127,276)	(41,637)	(74,434)	(116,071)
Net operating income	\$54,677	\$96,538	\$151,215	\$51,245	\$78,250	\$129,495

As at	December 31, 2022			December 31, 2021		
	Canada	U.S.	Total	Canada	U.S.	Total
Real estate properties	\$1,452,230	\$2,174,623	\$3,626,853	\$1,501,650	\$1,754,508	\$3,256,158
Mortgages payable	\$507,757	\$874,417	\$1,382,174	\$525,905	\$762,650	\$1,288,555

For the years ended	December 31, 2022			December 31, 2021		
	Canada	U.S.	Total	Canada	U.S.	Total
Additions to real estate properties	\$20,053	\$241,862	\$261,915	\$11,126	\$18,886	\$30,012
Fair value gain (loss) on real estate properties	(\$69,328)	\$277,603	\$208,275	\$76,160	\$212,502	\$288,662

NOTE 23

SUBSEQUENT EVENT

Subsequent to December 31, 2022, the REIT acquired from Morguard, the remaining 50% interest in Fenestra at Rockville Town Square (Note 5), comprising 492 residential suites, for a purchase price of \$96,840 (US\$71,500), excluding closing costs, and assumed mortgages payable of \$45,997 (US\$33,961).