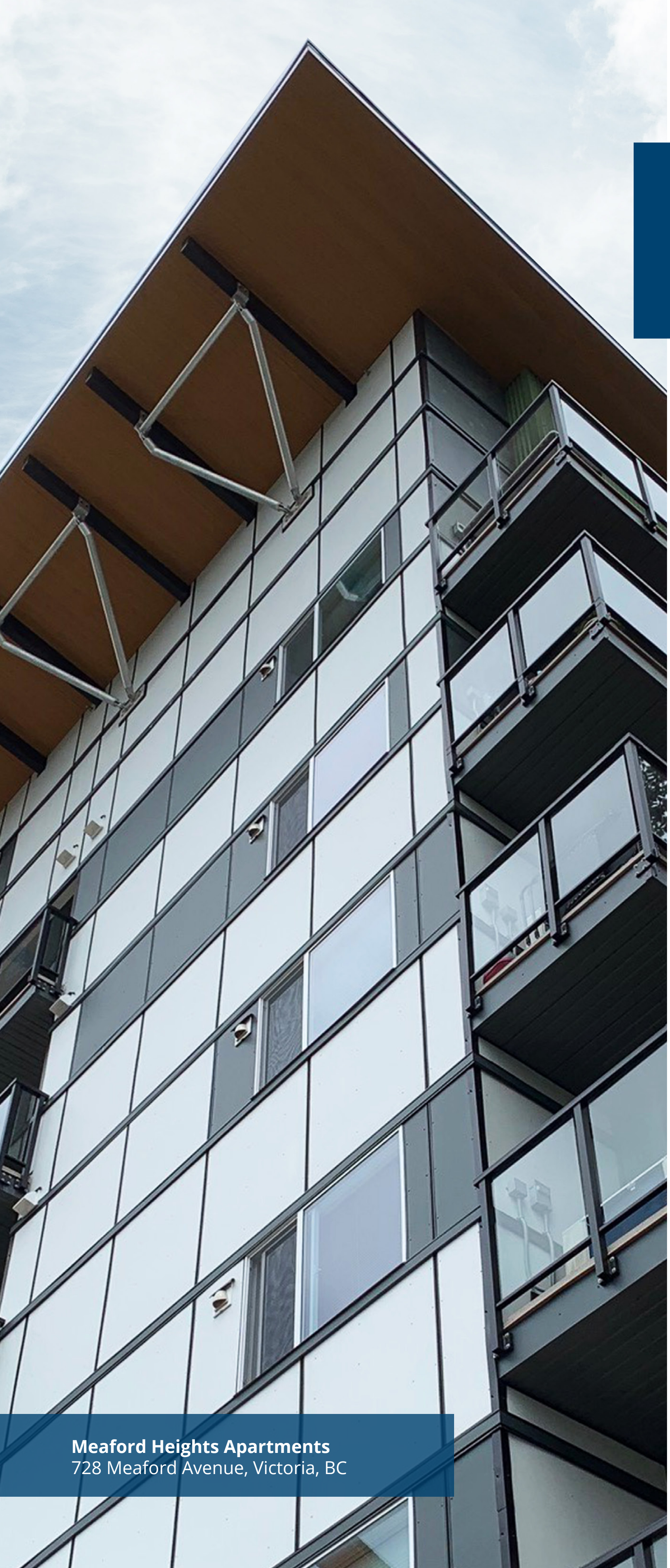
The Hazelton Apartments
39 Seapoint Rd, Dartmouth, NS

SKYLINE APARTMENT REIT 2019

ANNUAL REPORT TO UNITHOLDERS, DECEMBER 31 2019



Meaford Heights Apartments
728 Meaford Avenue, Victoria, BC

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OVERVIEW

$2.93 B	**18,337**	**91.35%**
Fair Value of Investment Properties (30.2% increase)	Residential Units Across Canada	Forward FFO Payout Ratio
$21.00	**$0.95**	**4.52%**
Current Unit Value (As at April 30, 2020)	Annual Distribution per Unit (As at April 30, 2020)	Annual Distribution Yield (As at April 30, 2020)
28.98%	**17.50%**	**14.53%**
Annualized Return 1 yr (As at April 30, 2020)	Annualized Return 5 yr (As at April 30, 2020)	Annualized Return Since Inception (As at April 30, 2020)

M3 Condos Locatifs
17895, boul. de Versailles Mirabel, QC

AWARDS

Best Managed Companies - Gold Standard Winner 2019

Sponsored by Deloitte, CIBC, Canadian Business, Smith School of Business, TMX, and MacKay CEO Forums, Canada's Best Managed Companies program measures more than financial performance. Applicants are assessed by a panel of judges made up of the program sponsors. Emphasis is placed on people, culture, overall business performance, innovation, and sustained growth.

FRPO 2019 MAC Awards - Winner, Environmental Excellence

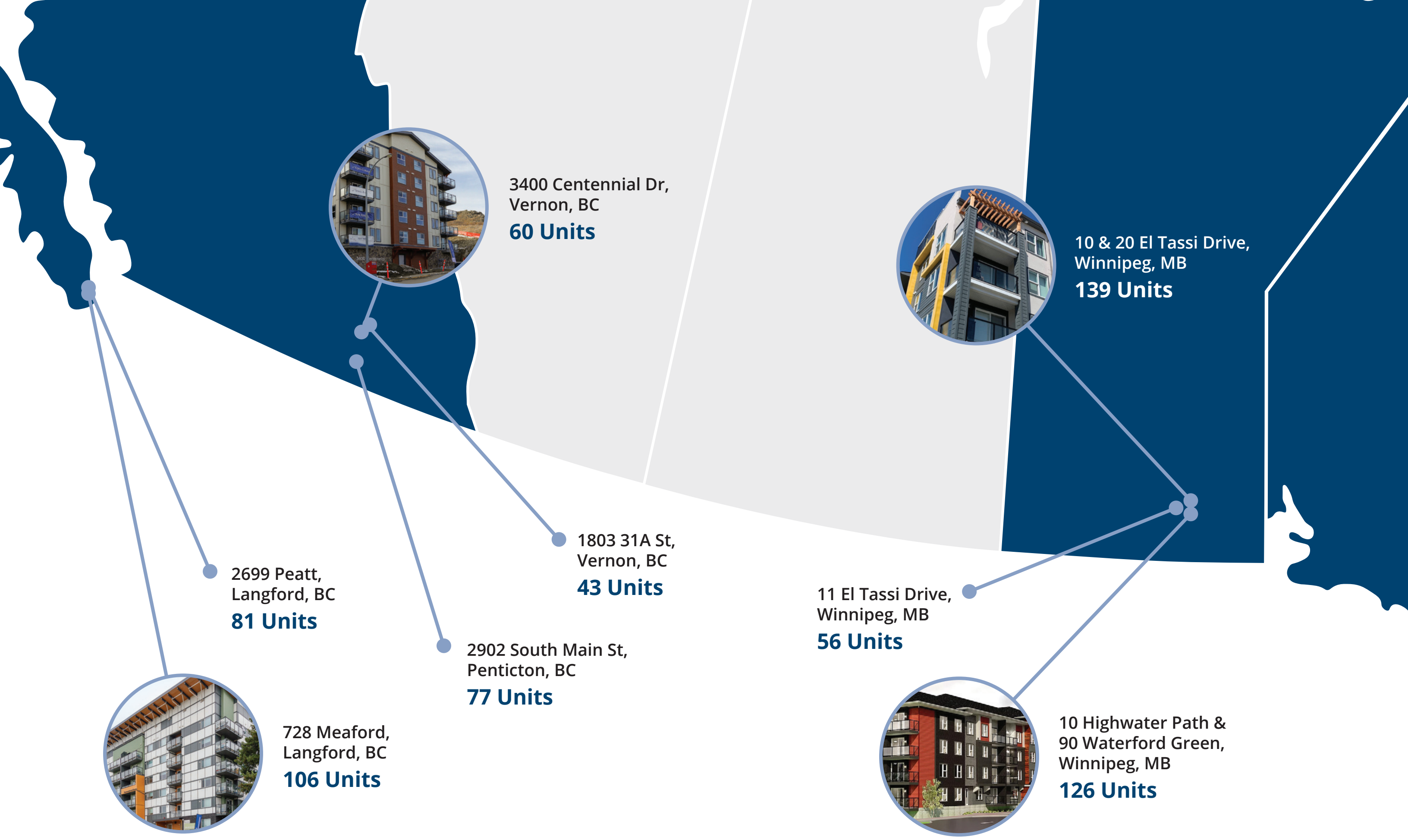
Skyline accepted top recognition in the category of Environmental Excellence, recognizing a rental housing provider who has demonstrated excellence in environmental practices. Skyline also received a Top-3 nomination in two other categories: Property Manager of the Year and Community Service Award of Excellence.

Growth 500 - Winner, 2019

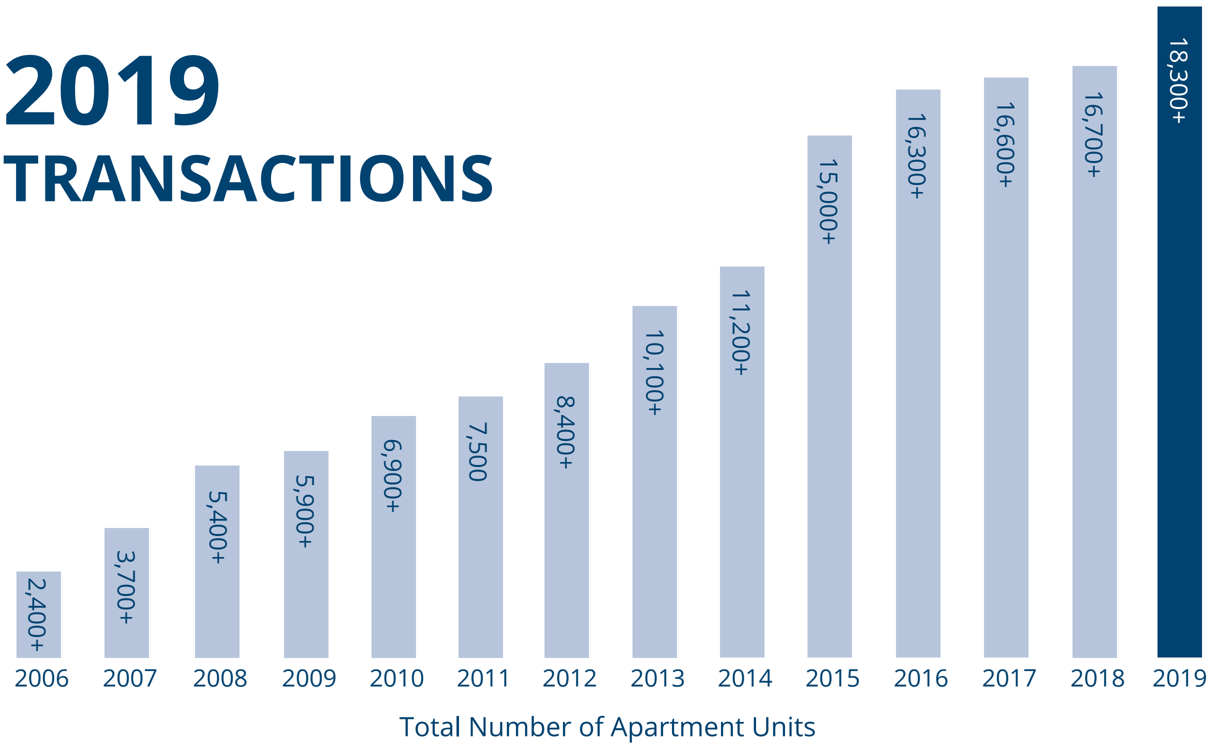
Skyline Group of Companies ranked No. 332 on the 30th annual Growth 500, the definitive ranking of Canada's Fastest-Growing Companies. Produced by Canadian Business publication, the Growth 500 has been Canada's most respectable and influential ranking of entrepreneurial achievement.

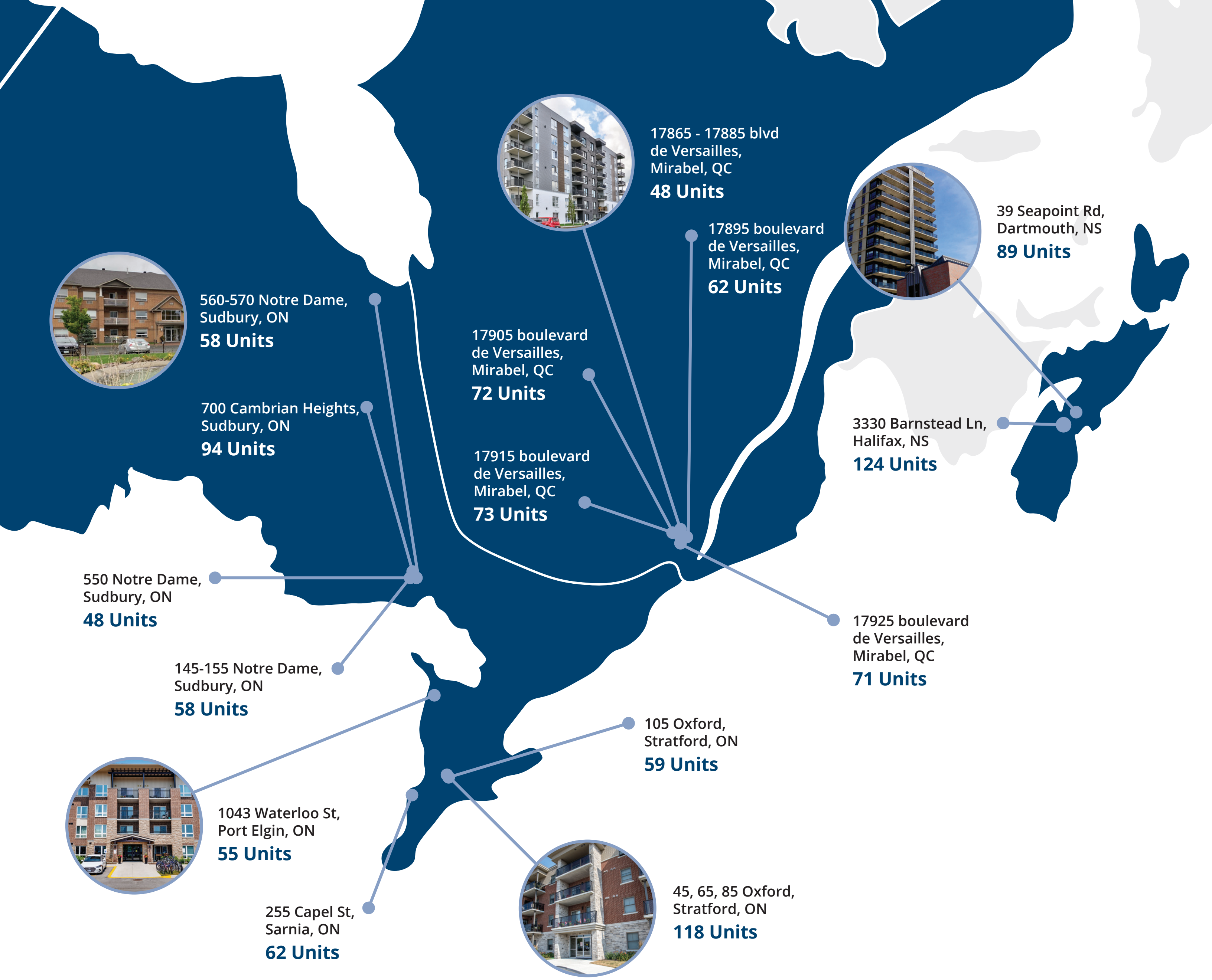
Globe and Mail's Canada's Top Growing Companies

Skyline Group of Companies ranked no. 369 on the inaugural The Globe and Mail Report on Business ranking of Canada's Top Growing Companies. The Canada's Top Growing Companies ranking program aims to celebrate entrepreneurial achievement in Canada by identifying and amplifying the success of growth-minded, independent businesses in Canada.



2019 TRANSACTIONS





Skyline Apartment REIT is one of Canada's leading private multi-residential real estate portfolios.

The REIT is comprised of multi-residential buildings across Canada with an impressive track record of consistently delivering monthly distributions to its investors.

Our Purpose

We exist to create meaningful value and an exceptional experience for each of our stakeholders, and to develop strong, supportive communities.

Our Values

Professionalism
Respect
Integrity
Drive
Efficiency

Our Mission

We bring passion, energy, and determination to make a positive impact with every interaction.

Grounded in real estate, **powered** by people and **growing** for the future…

Vanier Woods Apartments
39 Van Slyke Way Red Deer AB

Our engagement and enthusiasm stems from our knowledge that we have the best people in the industry helping us create and improve our systems, protocols, and sub-strategies to optimize revenue generation and growth.

From left to right: **Martin Castellan,** Co-Founder & Chief Administrative Officer; **R. Jason Ashdown,** Co-Founder & Chief Sustainability Officer; **Jason Castellan,** Co-Founder & Chief Executive Officer; **Wayne Byrd,** Chief Financial Officer.

CEO ADDRESS TO UNITHOLDERS

With yet another year behind us, and 2020 ahead, we are approaching our 15th Annual General Meeting as a business offering a REIT investment product. Further, it has now been more than 20 years since our first Syndication that was formed to hold a 15-unit apartment building, and more than 28 years since our rental business was first developed. That translates into approximately 340 months; or, as we call it, 340 rent cycles and bill payments. Although we have adapted and evolved our business over the years, our fundamentals have remained intact through all 340 months. To be clear, this does not translate to the idea that our work is monotonous. Our engagement and enthusiasm stems from our confidence that we have the best people in the industry helping us create and improve our systems, protocols, and sub-strategies to optimize revenue generation and growth. Maintaining the balance of minimizing our expenses and maintaining our assets for longevity is a challenge to which we rise every day.

For Skyline Apartment REIT, Skyline Commercial REIT, and Skyline Retail REIT, 2019 brought continuous improvement on the quality of assets within each portfolio through new acquisitions, strategic dispositions, and, in the case of the Skyline Apartment REIT, new build development. By selling assets at a premium to what we considered market value, and subsequently redeploying the capital for the benefit of each REIT, we saw stronger performance across each portfolio. However, growth is our mandate, and with interest rates at (yet again) historic lows, we have been able to add value to the REIT portfolios and thus improve the payout ratios to our investors. This strategy provides us with the ability to make decisions from a position of strength at all times.

This year also brought a distinct learning opportunity in that the historical stability and successful performance of the REITs made it difficult to raise capital for Skyline Mortgage Investment Trust (the "Trust"). In a low-interest rate environment, the REITs enjoy an advantageous position; at the same time, this environment hinders the ability to secure borrowers that are willing to pay interest rates that match our distribution payout levels. Taking this into consideration, along with the full taxation of the interest payments, the Trust was unable to effectively attract a meaningful level of investment. In late 2019, we began an orderly wind-up of the Trust, and all investors were subsequently paid out in full. We thank all investors who participated in Skyline Mortgage Investment Trust; although the investment was a success, it did not achieve an amount of growth at which we could continue to justify spending our resources.

In regard to Skyline Clean Energy Fund (the "Fund"), 2019 brought substantial growth, as an increasing number of investors sought alternative investment products that offer growth opportunities alongside sustainable, future-conscious practices. Skyline Clean Energy Fund's structure and management strategy allow the Fund to effectively offer each of these benefits.

While the assets within the Fund are backed with long-term government contracts, they also continue to benefit from the continuously improving technology in the clean energy sector. Through strategic adoption of this technology, where it provides the most value to the Fund, we have seen continuous improvement of the Fund's revenue streams. Additionally, we are seeing a global shift toward the decentralization of power production. In other words, there is a demand to move away from large centralized power generation facilities, and instead toward local energy production systems that offer more efficiency, customization, and control to the respective communities they serve. With Skyline Clean Energy Fund, Skyline is not only positioned to service the communities in which the Fund currently owns assets, but also in any community that uses power.

Since the Fund's performance depends on a resource that is virtually infinite—the sun—the growth opportunity for the Fund is effectually limitless, thus making it a bright opportunity for investors. By adopting the same general model and foundational strategies that we apply to the REITs (owning hard assets that produce monthly revenue), we can continuously optimize the Fund both for the short term and long term.

Overall, 2019 was a year of constant hard work that translated into improvement on a multitude of fronts: balance sheets, payout ratios, borrowing costs, and revenue generation, just to name a few. There was not a moment during the past year in which Skyline's operations companies or Funds sat idle; to the contrary, in 2019, the group of companies worked harder than ever before. Although we can look back with pride on a successful year, it is never an excuse to pause; we will continue to identify value-add opportunities, employ the strategies that allow us to flourish, and reshape those that do not. Our growth in 2019 has positioned us well to navigate 2020 with strength and fortitude.

Jason Castellan

Co-Founder, Chief Executive Officer & Trustee,
Skyline Apartment REIT.

PRESIDENT'S REPORT

2019 was a very successful year for Skyline Apartment REIT. As in previous years, we focused our efforts on creating value for our Unitholders through carefully calculated dispositions and strategic acquisitions. In addition, we continue to operate Skyline Apartment REIT as efficiently as possible while maintaining a strong focus on the environment, our employees, and our residents.

2019 was a very active year for Skyline Apartment REIT: we completed $405.8M in real estate transactions, comprised of $23.5MM in dispositions and $382.3M in acquisitions. We sold a total of 273 apartment suites; in the case of these sales, we saw greater value for Unitholders in selling these assets and redeploying the equity into other assets, than in the value growth opportunity of retaining them. We will continue to make strategic dispositions in order to increase income to the existing Unitholders without further dilution.

In terms of acquisitions, Skyline Apartment REIT acquired 1,779 suites, strengthening our holdings in many areas in which we currently own properties, as well as expanding into the cities of Langford, British Columbia; Winnipeg, Manitoba; Sudbury, Ontario; and Mirabel, Quebec to create greater geographic diversity and provide future growth opportunities within these cities. As we strive to find highly accretive acquisitions, geographic diversity is an important part of Skyline Apartment REIT's long-term strategy to add greater protection from being dependant on any single economic sector. As at December 31, 2019, we currently have properties in eight provinces and 57 different communities.

Mortgage rates are always top of mind, as they are impactful on the return of investment. We continually monitor rates and, through careful analysis, look for favourable opportunities to renew mortgages early. Skyline Apartment REIT continues to stagger the mortgage terms to ensure no more than 20% of the total mortgages come due each year, in order to mitigate the risk of renewing a large portion in an unfavourable environment. At the end of 2019, Skyline Apartment REIT's Weighted Average Mortgage Rate is 3.25%, a 19-basis point decrease from 3.44% at the end of 2018. This decrease in the Weighted Average Mortgage Rate represents over $3M in annual interest savings, which provides increased income resulting in increased value to our Unitholders.

Throughout 2019, most of the country continued to experience rising home prices and a shortage in rental housing. As an adaptive business, we continue to seek opportunities which not only provide cost-effective housing for Canadians but also provide benefit to Skyline Apartment REIT. As was the case in 2018, last year continued to be a "tight trading market" for existing multi-residential real estate. Seventy-five percent of our acquisitions were "new build" properties stemming from our relationships with developers, which we continue to foster in order to have a future pipeline of options in many different areas of the country. As I have mentioned in the past, newly constructed apartments are often comparable to the quality of new condo buildings and are highly sought after, which aids our strategy of attracting retirees and professionals as our tenants. It provides Skyline Apartment REIT with the opportunity to buy desirable assets that will attract quality residents and will require minimal capital expenditures over the next 20 years.

The high demand for rental accommodation also gives us the opportunity to increase the quality of our older assets while providing exceptional value to Unitholders. As existing residents move out, we are injecting capital into those older properties to upgrade common areas and suites, allowing Skyline Apartment REIT to capture more income by realizing the “mark to market” (otherwise known as “loss to lease”) income gap once new residents move in.

The loss to lease metric in the past 12 months has been larger than ever before in Skyline Apartment REIT’s history, which can be attributed to a large value increase achieved by simply re-renting units as they become vacant. Throughout 2019, we saw significant top-line revenue growth as suites were turned over. As a result of increased revenues and market capitalization rates, the year-over-year IFRS valuation of Skyline Apartment REIT increased by $328 million, which has resulted in the recent 21.7% increase in Unit Value from $17.25 per unit to $21.00 per unit.

As Skyline Apartment REIT navigates through 2020, it will continue to adapt to the changing economic and rental housing landscapes to assist in ensuring that cash flow remains stable and strong. Shelter is among the basic needs in life, and Skyline Apartment REIT provides this basic need. Thus, perhaps next to a food retailer, we believe that the rental housing industry is a fundamentally stable sector for investment. Because everyone requires a roof over their heads, we believe Skyline Apartment REIT is well-positioned to weather future challenges and remain a strong and stable investment entity.

As Skyline Apartment REIT navigates through 2020, it will continue to adapt to the changing economic and rental housing landscapes to ensure that cash flow remains stable and strong.

Matthew Organ
President,
Skyline Apartment REIT

SENIOR MANAGEMENT

Jason Castellan
Co-Founder &
Chief Executive Officer,
Skyline Group of
Companies

Martin Castellan
Co-Founder &
Chief Administrative
Officer, Skyline Group of
Companies

R. Jason Ashdown
Co-Founder &
Chief Sustainability Officer,
Skyline Group of
Companies

Wayne Byrd, CPA, CMA
Chief Financial Officer,
Skyline Group of
Companies

Matthew Organ
President, Skyline
Apartment Asset
Management Inc.

BJ Santavy
Vice President,
Skyline Living

Danny Cobban
Director, Skyline Apartment
Asset Management Inc.

Krish Vadivale
Vice President,
Finance,
Skyline Group of Companies

Pete Roden
Vice President, Skyline
Mortgage Financing Inc.

Karyn Sales
General Counsel,
Skyline Group
of Companies

INDEPENDENT TRUSTEES

Jonathan Halpern

Jonathan Halpern, CPA, CA, is currently the President of Metropolitan Equities Limited, a privately owned family office and real estate investment company. Prior thereto, Mr. Halpern was a senior manager with an international accounting firm specializing in real estate and small business. Mr. Halpern has also served on the management committee of a national commercial flooring distributor. Mr. Halpern is a member of Chartered Professional Accountants of Ontario and Manitoba, and holds a Bachelor of Commerce (Honours) degree with Distinction with the University of Manitoba. Mr. Halpern also sits on the Board of Trustees of Skyline Commercial REIT.

Robert V. Breadner

Robert V. Breadner is President and Owner of Breadner Trailer Sales Amalgamated, a private holding and investment company which maintains equity positions in various private businesses. A 1977 BBA graduate of Sir Wilfred Laurier University, Mr. Breadner was the former President and owner of Breadner Trailer Sales Limited, North America's Largest Transport Trailer Distributorship with dealerships across Canada, whose sales exceeded $250 million in 2000. After being awarded Ontario's Entrepreneur of the Year in 1996, as well as having Breadner Trailer Sales named one of Canada's 50 best companies four years in a row, Mr. Breadner sold the business in 2001.

Edward (Ted) Perlmutter

Edward (Ted) Perlmutter is a seasoned commercial real estate lawyer, and was a senior partner at Blake, Cassels & Graydon LLP for 25 years. With in-depth experience in leading highly complex transactions in the public and private sectors, he enjoys a reputation for developing and successfully executing innovative approaches. Mr. Perlmutter is a sought-after independent legal counsel on complex real estate issues and projects. He holds a Master of Laws degree from the London School of Economics.

Jeffrey Neumann

Jeff Neumann is the broker owner of Coldwell Banker Neumann Real Estate in Guelph, ON. Since 1996, Mr. Neumann has developed Coldwell Banker Neumann Real Estate into a local industry leader, with over 50 full-time salespeople averaging over $400 million in sales per year. Mr. Neumann has been an active real estate investor in both the apartment and office sectors. His experience and breadth of knowledge in a broad range of real estate matters - including acquisitions, financing, management, development, and dispersal - leaves him uniquely positioned to serve on the Skyline Apartment REIT Board of Trustees.

Susan Taves

Susan Taves is a Business Advisor with expertise in the areas of finance, operations, strategic thinking, and leadership. Susan was a senior partner at BDO Canada LLP until January 2016, when she concluded 30 years in public practice. As a Chartered Accountant (1987), she is sought after by companies of all sizes and industries to assess and conclude buy/sell/ownership transactions. She is on the Board of Directors at Kindred Credit Union, and has volunteered significant time over her career to Boards such as University of Waterloo Affiliated College, Habitat for Humanity, and United Way (Kitchener and London). Susan is a Corporate Director (2015), having completed the University of Toronto Rotman – ICD Directors Education Program, and is a graduate of the University of Waterloo.

Oxford Haus Apartments
45 Oxford Street, Stratford, ON

FINANCIAL REPORTING

Forward-Looking Disclaimer

The following Management's Discussion and Analysis ("**MD&A**") of the results of operations and conditions for the year ended December 31, 2019, should be read in conjunction with Skyline Apartment Real Estate Investment Trust's ("**Skyline Apartment REIT**" or the "**REIT**") audited consolidated financial statements. Certain statements in this MD&A could be considered forward-looking information within the meaning of applicable securities legislation. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the REIT's control, which could cause actual results to differ materially from those disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions, the financial condition of tenants, our ability to refinance maturing debt, rental risks, including those associated with the ability to rent vacant suites, our ability to source and complete accretive acquisitions, and interest rates.

The information in this MD&A is based on information available to Management as of April 30, 2020, except where otherwise noted. Skyline Apartment REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise.

In some instances, forward-looking information can be identified by the use of terms such as "may", "should", "expect", "will", "anticipate", "believe", "intend", "estimate", "predict", "potentially", "starting", "beginning", "begun", "moving", "continue", or other similar expressions concerning matters that are not historical facts. Forward-looking statements in this MD&A include, but are not limited to, statements related to acquisitions or dispositions, development activities, future maintenance expenditures, financing and the availability of financing, tenant incentives, and occupancy levels.

Non-IFRS Measures

Skyline Apartment REIT releases audited consolidated annual financial statements in accordance with International Financial Reporting Standards ("**IFRS**"). In this MD&A, as a complement to results provided in accordance with IFRS, Skyline Apartment REIT also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS. These include net operating income ("**NOI**"), Funds from Operations ("FFO") and applicable per Unit amounts and payout ratios (collectively, the "**Non-IFRS Measures**").

These Non-IFRS Measures are further defined and discussed in the "Key Performance Indicators" and "Funds from Operations" sections of this MD&A. Since NOI and FFO are not measures recognized under IFRS, they may not be comparable to similarly titled measures reported by other issuers. Skyline Apartment REIT has presented the Non-IFRS measures because Management believes these Non-IFRS measures are relevant measures of the ability of Skyline Apartment REIT to earn revenue and to evaluate Skyline Apartment REIT's performance. A reconciliation of the Non-IFRS measures is provided in the "FFO Payout Ratio" section. The Non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of Skyline Apartment REIT's performance or the sustainability of our distributions.

MD&A Overview

This MD&A focuses on key areas from the consolidated financial statements and pertains to major known risks and uncertainties relating to the real estate industry, in general, and the Trust's business, in particular. This discussion should not be considered all-inclusive as it excludes changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur, which could affect the organization in the future. To ensure that the reader is obtaining the best overall perspective, this discussion should be read in conjunction with material contained in the audited consolidated financial statements for the years ended December 31, 2019 and 2018, along with all other information regarding Skyline Apartment REIT publicly posted by the REIT or its affiliates. It is not our intent to reproduce information that is located in these other reported documents, but rather to highlight some of the key points and refer you to these documents for more detailed information.

Business Overview

Skyline Apartment REIT is an unincorporated, open-ended investment trust created by a declaration of trust made as of June 1, 2006 and amended and restated as of November 5, 2016 (the "**Declaration of Trust**" or "**DOT**") and governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein. Skyline Apartment REIT earns income from investments in a diversified portfolio of multi-unit residential properties and a complement of commercial properties located in Canada.

Management Strategy

As managers of Skyline Apartment REIT; employees of Skyline Living (the "**Operations Manager**"), Skyline Apartment Asset Management Inc. (the "**Asset Manager**") and Skyline Wealth Management Inc. (the "**Exempt Market Dealer"** or **"EMD**") implement their unique values and proprietary strategies as they fulfill their responsibilities. The REIT's mandate is clear and focused on the following strategies:

- **Customer Satisfaction -** Management strives to keep all customers satisfied and as long-term tenants by creating an environment that is clean and comfortable within each property. By developing a sense of community within the properties through various programs, turnover and vacancy should be reduced. This may in turn create demand for people wanting to live in Skyline Apartment REIT's buildings. Through the reduction of costs associated with tenant turnover and through higher demand that allows for increased rents, net income should grow accordingly.

- **Maintenance and Repair Programs -** Management is fundamentally driven by efficiencies and cost-effective programs that are accretive to Skyline Apartment REIT's short-term and long-term value proposition. Management has positioned Skyline Apartment REIT to take full advantage of efficiency programs and capital investments that will attract customers and enhance the overall value of the portfolio.

- **Quality On-Site Building Staff -** Management believes that the success of a property, from both financial and customer satisfaction standpoints, starts with the attitudes and work ethic of the on-site building staff. From being the first point of contact, to providing ongoing attention to each customer's needs, the building staff represents Skyline Apartment REIT at every touch point. As well as being attentive and dedicated, Management will also seek on-site staff that are skilled in many areas in order to reduce the requirement and added costs for outside trades for ordinary day-to-day repairs and maintenance.

- **Detailed Financial Reporting -** Management utilizes sophisticated financial tools to maximize Skyline Apartment REIT's income and to measure the effectiveness of cost control and other efficiency programs. Management distributes in-depth financial reporting to those involved and who have a direct impact on the financial success and control of those particular incomes and expenses.

- **Strategic Debt Management -** The Asset Manager works diligently to seek out financing opportunities to optimize Skyline Apartment REIT's leveraged returns. Attention to staggered mortgage maturities and financing terms, within maximum leverage amounts set out in the Declaration of Trust, ensures that Skyline Apartment REIT's exposure to fluctuating interest rates over the short and long term are both minimized and utilized to the greatest benefit. The Asset Manager may also make use of operating lines of credit for capital expenditures and acquisitions to improve the overall returns of Skyline Apartment REIT.

- **Enhancement of Skyline Apartment REIT's Portfolio -** The Asset Manager is always looking at opportunities to maximize Skyline Apartment REIT's portfolio value. Properties that are 'mature' and that are no longer adding value to Skyline Apartment REIT may be sold or repositioned, if there is a market for an enhanced property. The Asset Manager will continue to diversify the portfolio by purchasing properties in what they believe to be thriving communities that will continue to strengthen Skyline Apartment REIT's broadened footprint that will reduce the risk of portfolio instability that may arise in any one particular community.

- **Communications -** The Exempt Market Dealer delivers current and relevant information to prospective and existing Unitholders in order to keep them informed and engaged. Ongoing communications occur through regular mass email updates, online postings to the investor-only website portal and quarterly newsletters that are included with Unitholders' quarterly statements. Communications cover relevant topics as they relate to Skyline Apartment REIT, including; new acquisitions and dispositions, existing property repositioning, the launch of new Offering Memorandums, special investor events and general corporate news.

Key Performance Indicators

To meet its objectives and to evaluate the success of its strategies, Skyline Apartment REIT uses several key operating and performance indicators:

- **Distributions -** During 2019, Skyline Apartment REIT was paying monthly distributions to Unitholders of $0.0792 per unit, or $0.95 on an annual basis. At December 31, 2019, approximately 41.1% of the REIT's Units were enrolled in the Distribution Re-Investment Plan ("DRIP").

- **Occupancy -** Management is focused on achieving occupancy levels that exceed the overall averages for the geographic regions in which Skyline Apartment REIT operates, without sacrificing the maximization of rental income. At December 31, 2019, occupancy in the multi-residential suites was 95.5% and in the commercial units was 91.7%.

- **Average Monthly Rents -** Through ongoing and active management, the highest possible average monthly rents are targeted in each geographic region and at each individual property. At December 31, 2019, average monthly multi-residential rent was $1,079.74 per suite.

- **Loss to Lease -** Through the management of the key indicators of "occupancy" and "average monthly rents", Management also monitors "Loss to Lease" which is defined as the net positive or negative variance of actual rents against market rents. Management strives to minimize the Loss to Lease margin.

- **Net Operating Income ("NOI") -** This is defined as operating revenues less operating expenses and is a key measure of operating performance. It is a key non-International Financial Reporting Standards ("**IFRS**") financial measure of the operating performance of Skyline Apartment REIT. For the year 2019, Skyline Apartment REIT's NOI margin was 55.4%.

- **Same Property Net Operating Income -** This is defined as operating revenues less operating expenses for properties which were held for the same periods in 2016 through 2019. Management is focused on maintaining or increasing same property NOI year over year. For the year 2019, same property NOI was $115.4 million, an increase of 5.8% over the prior year.

- **Funds from Operations ("FFO") -** FFO is a measure of operating performance based on the funds generated by the business before Re-Investment or provision for other capital needs. As Skyline Apartment REIT's portfolio matures, Management is targeting long-term that its distributions will be fully funded from FFO. For the year 2019, Skyline Apartment REIT generated $65.4 million in FFO.

- **Payout Ratio -** To ensure that Skyline Apartment REIT retains sufficient cash to meet its capital improvement and leasing objectives, Management strives to maintain an appropriate FFO payout ratio over the year. Management is targeting a 100% FFO payout ratio or below. For the year 2019, Skyline Apartment REIT's FFO payout ratio was 90.8% .

- **Active Portfolio Management -** Insofar as good opportunities exist that are accretive, Management will continue to acquire income-producing, multi-unit residential real estate for the portfolio. Further active management in the identification of properties that are well positioned for successful accretive, repositioning strategies. The inverse is also true, where properties are deemed mature and non-accretive and where additional value-enhancing improvements will not further improve these properties, they will be positioned for sale.

- **Financing -** Management is continually managing and planning its financing strategies for the portfolio. This ensures that the portfolio is well-positioned to mitigate interest rate uncertainty as well as to responsibly ladder the maturities of the portfolio's mortgages over the long term.

- **Loan to Value ("LTV") -** The portfolio is regularly evaluated based upon key leverage ratios, comprised of mortgage debt, total indebtedness, historical cost and fair value in accordance with IFRS 13 – Fair Value ("**IFRS 13**"). Loan to value ratios are shown on both a historical cost and market value basis. The Declaration of Trust requires that the overall leverage ratio not exceed 70% Loan to IFRS Fair Value. However, it is Management's objective to keep the portfolio at a more conservative level of approximately 60% leverage based upon fair value. At the close of 2019, Skyline Apartment REIT's portfolio leverage ratio was 62.5% (against historical cost) and 51.1% (against IFRS 13 valuation)

Goals And Objectives Of Skyline Apartment REIT

In accordance with the Declaration of Trust, the goals and objectives of Skyline Apartment REIT are:

1. to provide REIT Unitholders with stable and growing cash distributions, payable monthly and, to the extent reasonably possible, tax-deferred, from investments in a diversified portfolio of income-producing, multi-unit residential properties located in Canada;
2. to maximize REIT Unit value through the ongoing management of Skyline Apartment REIT's assets, through the future acquisition, repositioning and disposition of properties; and
3. to maintain a REIT that satisfies the REIT exception under the Specified Investment Flow Through ("**SIFT**") legislation in order provide certainty to Unitholders with respect to taxation of distributions.

2019 Highlights

- The REIT grew its portfolio of investment properties from $2.25 billion to $2.93 billion (a 30.2% increase) over the course of 2019. This year's acquisition activity also marked the REIT's entrance into the Manitoba market.
- As of February 11, 2020, the value of REIT units grew from $17.25 to $21.00 per unit (a 21.7% year-over-year increase).
- Average Monthly Rents increased to $1,079 per residential unit, from $995.
- NOI Margin increased to 55.4% from 54.1% in the previous year.
- Weighted Average Mortgage rates dropped to 3.3% from 3.6% year-over-year, on $1.5B of outstanding mortgages as at December 31, 2019
- Year-over-year FFO grew $0.02 (2.0%) on a per unit basis, from $1.02 to $1.04.

Financial Highlights **($ thousands, except where noted)**	**2019**	**2018**
Property revenues	$237,041	$218,469
Direct property expenses	(105,671)	(100,269)
Net operating income ("NOI")	**$131,370**	**$118,200**
Net income	**$283,954**	**$131,730**
Funds from operations ("FFO")	**$65,402**	**$60,323**
Weighted average units outstanding	63,082,770	59,024,407
FFO per unit (weighted average)	**$1.04**	**$1.02**
FFO payout ratio	**90.84%**	**137.50%**
Normalized FFO payout ratio (1)	**90.84%**	**90.30%**
Forward normalized FFO payout ratio (2)	**91.35%**	**93.14%**
Total distributions declared to REIT and LP unitholders	$59,408	$82,944
Normalized distributions declared to unitholders (1)	$59,408	$54,482
Forward distribution rate per unit	$0.95	$0.95

(1) Excludes the one-time special distribution of $0.50 per unit paid in 2018
(2) As of April 30, 2020

Property Portfolio

At December 31, 2019, through active portfolio management; the portfolio consisted of 18,337 residential suites and 663,061 square feet of commercial space, geographically well-diversified across 57 communities and 7 Canadian provinces.

The REIT continues to look at further expanding and enhancing the portfolio in markets across Canada.

Portfolio Average Monthly Rent & Occupancy (By Province) **As at December 31, 2019**	**Average Occupied Monthly Rents**	**Occupancy %**
Residential		
Alberta	$1,378.27	87.9%
BC	1,360.49	85.2%
Manitoba	1,472.36	96.8%
New Brunswick	1,032.25	98.1%
Nova Scotia	1,487.36	97.4%
Ontario	1,031.02	96.4%
Quebec	980.63	96.5%
Residential Portfolio Average	**$1,079.74**	**95.5%**
Commercial	**$1.31 psf**	**91.7%**

NOTE: This reporting format does not include the weighting of information by unit type.

Through its active property management strategies and proactive capital investment programs, Skyline Apartment REIT strives to achieve the highest possible average monthly rent in accordance with the local market conditions. Management also strives, through a focused, hands-on approach to its business, to achieve occupancies that are in line with, or higher than, market conditions in each of the geographical regions in which Skyline Apartment REIT operates while enhancing the overall qualitative profile of its resident base.

Acquisitions And Dispositions

Acquisitions Completed During the Year Ended December 31, 2019
($ thousands, except where noted)

Purchase Date	Number of Units	Region	Type	Acquisition Price	Mortgage Funding
24-Jan-19	77	BC Residential	Residential	$12,000	$10,160
11-Feb-19	255	Quebec Residential	Residential	51,350	39,572
14-Mar-19	60	BC Residential	Residential	13,324	9,730
10-Apr-19	89	Atlantic Residential	Residential	21,750	14,641
17-Apr-19	126	Manitoba Residential	Residential	28,325	21,351
24-Jun-19	195	Manitoba Residential	Residential	43,275	30,494
15-Jul-19	124	Atlantic Residential	Residential	27,700	18,653
1-Aug-19	71	Quebec Residential	Residential	17,215	13,342
22-Aug-19	118	Med-West Residential	Residential	31,550	19,280
12-Sep-19	62	Sarnia Residential	Residential	7,800	5,554
12-Sep-19	106	West BC Residential	Residential	32,800	21,417
31-Oct-19	81	West BC Residential	Residential	24,200	15,102
1-Nov-19	59	Mid-West Residential	Residential	16,350	-
2-Dec-19	55	North Central Residential	Residential	6,056	-
16-Dec-19	43	BC Residential	Residential	9,496	-
16-Dec-19	94	Northern Residential	Residential	10,900	7,331
16-Dec-19	58	Northern Residential	Residential	11,375	7,636
16-Dec-19	48	Northern Residential	Residential	6,000	4,096
16-Dec-19	58	Northern Residential	Residential	10,825	7,040
Total	**1,779**			**$382,291**	**$245,399**

Dispositions Completed During the Year Ended December 31, 2019
($ thousands, except where noted)

Disposition Date	Number of Units	Region	Carrying Value	Equity	Mortgage Discharged
13-May-19	164	Mid-Central Residential	13,105	13,105	-
11-Oct-19	35	Mid-Central Residential	3,073	2,188	885
11-Oct-19	37	Mid-Central Residential	3,514	2,243	1,271
11-Oct-19	37	Mid-Central Residential	3,788	2,375	1,413
Total	**273**		**$23,480**	**$19,911**	**$3,569**

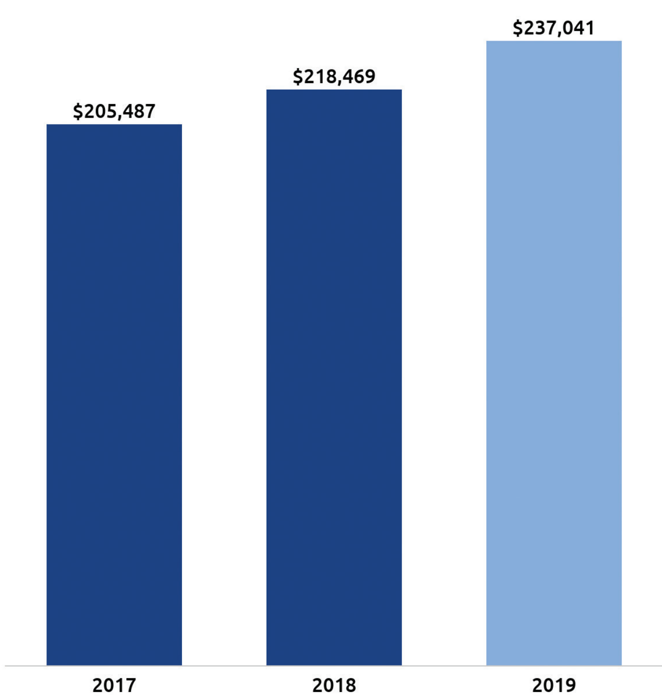
2019 Operating Highlights

Regional Highlights ($ thousands, except where noted)	2019		2018		Increase (Decrease)		
Portfolio	**NOI**	**NOI Margin (%)**	**NOI**	**NOI Margin (%)**	**Revenue Change (%)**	**Expense Change (%)**	**NOI Change (%)**
Eastern Ontario	**$12,950**	**54.9%**	**$12.407**	**56.8%**	7.9%	7.6%	4.4%
Northern Ontario	**$8,752**	**47.9%**	**8,360**	**51.1%**	11.6%	13.0%	4.7%
South Western Ontario	**$72,013**	**55.2%**	**72,075**	**52.9%**	-4.2%	-6.4%	-0.1%
Quebec	**$9,484**	**57.6%**	**6,677**	**56.2%**	38.4%	26.4%	42.0%
Eastern Canada	**$7,408**	**57.6%**	**5,643**	**59.0%**	34.3%	31.6%	31.3%
Western Canada	**$20,763**	**59.9%**	**13,038**	**60.7%**	61.2%	56.4%	59.2%
Total	**$131,370**	**55.4%**	**$118,200**	**54.1%**	8.9%	5.1%	11.1%

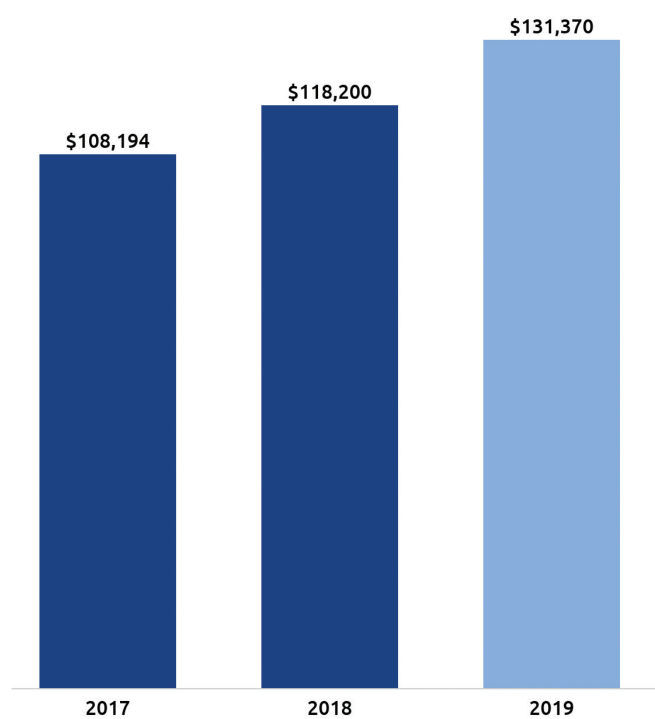
Operating Results **($ thousands, except where noted)**	**2019**	**%***	**2018**	**%***
Property revenues				
Residential rent	$218,436	92.2%	$199,713	91.4%
Commercial rent	18,300	7.7%	18,181	8.3%
Condominium sales	305	0.1%	575	0.3%
Total property revenues	**$237,041**	**100%**	**$218,469**	**100%**
Direct property expenses				
Property taxes	31,524	29.8%	30,374	30.3%
Other direct property costs	48,310	45.7%	44,049	43.9%
Utilities	25,628	24.3%	25,441	25.4%
Condominium cost of sales	209	0.2%	405	0.4%
Total direct property expenses	**$105,671**	**44.6%**	**$100,269**	**45.9%**
Net operating income ("NOI")	**$131,370**	**55.4%**	**$118,200**	**54.1%**

* As a percentage of property revenues

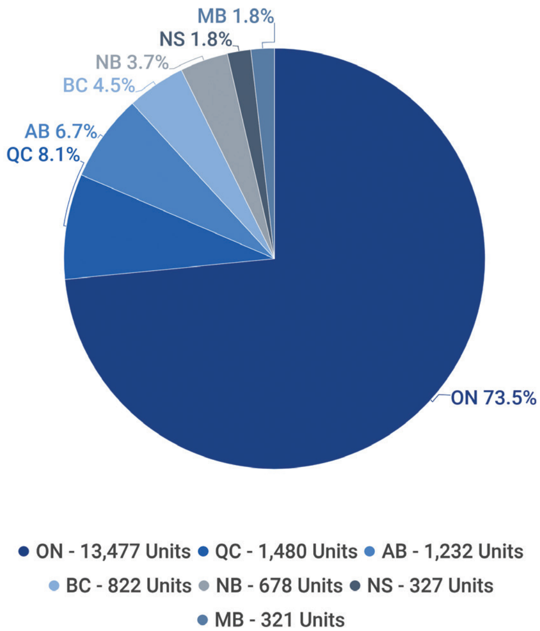
OPERATING REVENUES
($ Thousands)



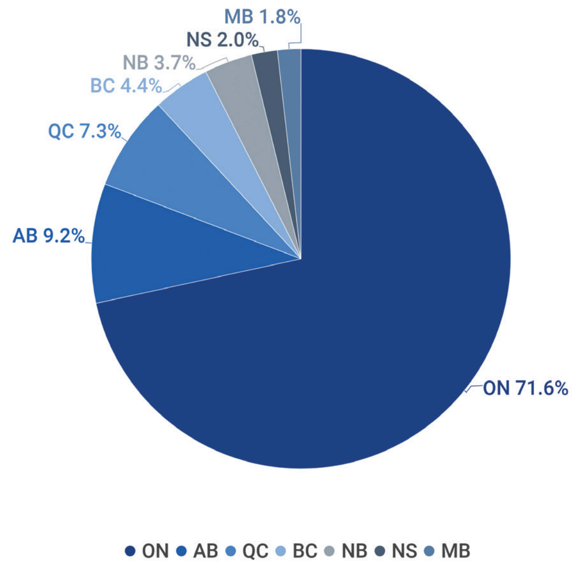
NET OPERATING INCOME
($ Thousands)



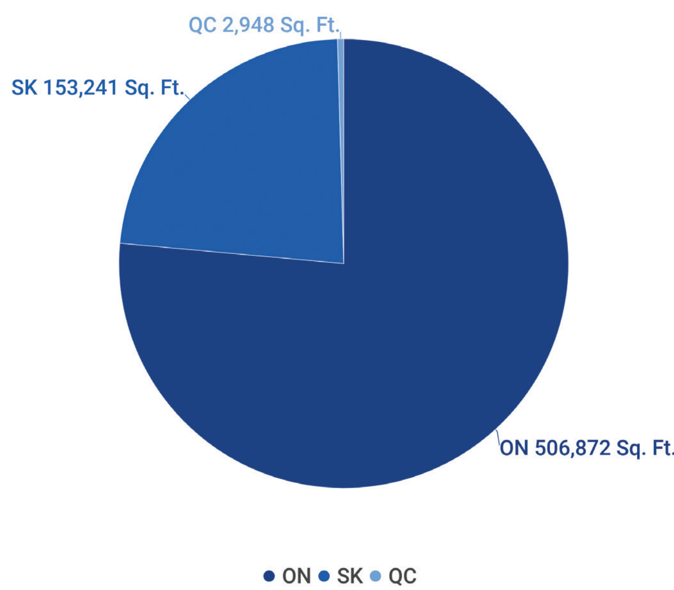
Residential Unit Breakdown by Province



Residential Rent Breakdown by Province



Commercial Sq. Ft. Breakdown by Province



Funds From Operations

FFO is a measure of operating performance based on the funds generated by the business before investment or provision for other capital needs. This non-IFRS measure is a broadly-used performance measure for real estate investment trusts. However, it does not have a standardized industry definition and therefore, it may not be relied upon as a comparable indicator to other REITs that use a similar term. As Skyline Apartment REIT's portfolio matures, Management is targeting that its distributions will be fully funded from FFO; while recognizing that the un-stabilized properties in the portfolio have a short-term impact on performance and thus FFO available for distributions. During this period, it is considered a normal course of business for Management to be refinancing properties for operating cash flows and capital investment funds. Additionally, normal course of business includes the selling of mature assets for income and value crystallization.

Payout ratios compare total and normalized distributions declared to these non-IFRS measures. Management considers these ratios to also be important measures of the sustainability of distributions. Management continues to target reduced reliance on disposition proceeds or surplus equity realized through refinancing to supplement distribution flows.

Payout Ratios

A reconciliation of net income to FFO is as follows:

Payout Ratios **($ thousands, except where noted)**	**2019**	**2018**
Profit & loss		
Property revenues	$237,041	$218,469
Direct property expenses	(105,671)	(100,269)
Net operating income ("NOI")	**$131,370**	**$118,200**
Finance costs	(62,842)	(74,836)
REIT & other expenses	(13,750)	(12,106)
Interest income	79	1,129
Fair value gain in disposed properties	2,066	45,847
Fair value gain	227,031	53,496
Net income	**$283,954**	**$131,730**
Non-cash add-backs:		
Distributions on partnership units included in finance costs	$10,545	$27,936
Fair value gain on disposed properties	(2,066)	(45,847)
Fair value gain	(227,031)	(53,496)
Funds from operations ("FFO")	**$65,402**	**$60,323**

(continued on next page)

Payout Ratios ($ thousands, except where noted)	2019	2018
Funds from operations (“FFO”)	**$65,402**	**$60,323**
Weighted average REIT units and LP units outstanding	63,082,770	59,024,407
Total distributions declared	$67,055	$106,661
Less: General Partner sharing distributions	(7,647)	(23,717)
Total distributions declared to REIT and LP Unitholders	**$59,408**	**$82,944**
Less: special distributions	-	(28,462)
Normalized distributions declared to Unitholders [(1)]	**$59,408**	**$54,482**
FFO per unit (weighted average)	**$1.04**	**$1.02**
FFO payout ratio [(2)]	**90.84%**	**137.50%**
Normalized FFO payout ratio [(1), (2)]	**90.84%**	**90.30%**
Forward distribution rate per unit	**$0.95 [(3)]**	**$0.95 [(3)]**
Forward normalized FFO payout ratio [(1), (2)]	**91.35%**	**93.14%**

[(1)] Excludes the one-time special distribution of $0.50 per unit paid in 2018
[(2)] Excludes distributions to the General Partner
[(3)] As of April 30, 2020

Distributions to Unitholders/Shareholders and Payout Ratio

During 2019, Skyline Apartment REIT paid monthly distributions to Unitholders of $0.0792 per Unit, or $0.95 per Unit on an annual basis.

At December 31, 2019, approximately 41.1% of the REIT's Units were enrolled in the Distribution Re-Investment Plan. Distributions made to Unitholders during 2019, amounted to $59.4 million, of which $24.4 million was retained through the DRIP.

In order to maintain a consistent cycle of monthly distributions, the REIT may, from time to time, use proceeds from dispositions and refinancing's as well as funds from the operating line of credit.

Distribution Sources **($ thousands, except where noted)**	**2019**	**2018**
Normalized distributions declared	**$59,408**	**$54,482**
Funded by:		
Income	100.00%	100.00%
Building dispositions	-	-
Refinance proceeds	-	-
Special distributions declared	**-**	**$28,462**
Funded by:		
Income	-	-
Building dispositions	-	100.00%
Refinance proceeds	-	-

Investment Properties

Since the adoption of IFRS reporting, this method of reporting impacts the consolidated financial statements of Skyline Apartment REIT and its subsidiary most significantly in the areas of Investment Properties and Amortization.

Under IFRS, Management considers its properties to be Investment Properties under International Accounting Standard ("**IAS**") 40-Investment Property ("**IAS 40**"). Investment Properties are properties held to earn rental income or for capital appreciation, or both. Management has elected the Fair Value Model to measure its investment properties on the balance sheet and record any unrealized gain (or loss) on the income statement.

The following is Management's approach to the Fair Value of the portfolio's investment properties:

- Group the portfolio into segments that identify geographic locations as well as to group by property characteristics. This will allow Management to apply the same metrics to similar properties.
- Engage third-party market appraisals for a portion of its portfolio which comprises at least 20% of the number of properties which make up at least 25% of the gross book value of the portfolio. The balance of the properties will undergo an internal valuation which will be verified by a comparative appraisal and audited by RLB LLP (the Skyline Apartment REIT's Auditor).

- Properties must be appraised by a third party at least once every five years.
- Properties will not be appraised by a third party within 18 months of acquisition (unless it is necessary for mortgage financing).
- Properties will not be required to be appraised in a year, if within the next 12 months it is scheduled for mortgage maturity.

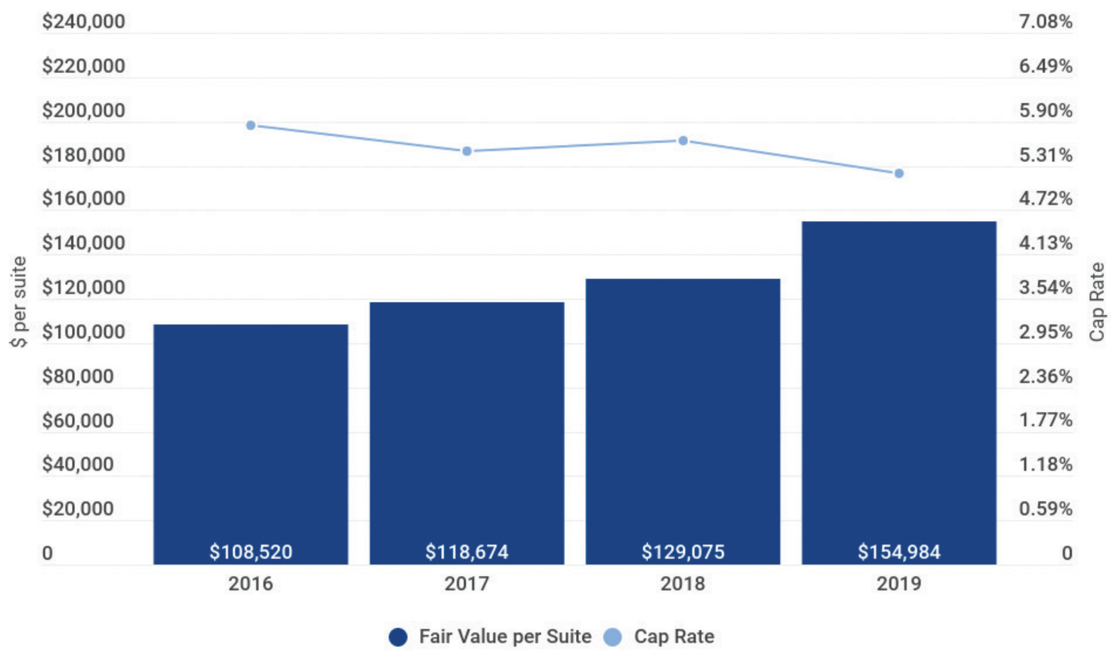
2019 realized fair value gains on held and disposed investment properties of $230.8 million and $2.1 million respectively, for a total fair value gain of $232.9 million over 2018's carrying value.

Fair Value of Investment Properties (under IFRS 13) **($ thousands, except where noted)**	**2019**	**2018**
Balance, beginning of year	**$2,249,919**	**$2,074,133**
Acquisitions through purchase of investment properties	382,291	225,107
Additions through capital expenditures on existing investment properties	90,241	13,798
Disposals through sale of investment properties	(23,480)	(165,628)
Reclassification due to change in use for the property to owner-occupied by RELP	(3,718)	0
Fair value adjustment on investment properties	232,928	102,509
Balance, end of year	**$2,928,181**	**$2,249,919**

The following table and graph summarize the REIT's growth in asset value on a trending basis over the past three years, along with the impact that NOI growth and the capitalization rate ("**CAP Rate**") movement has had on that value.

Trending Fair Value Details **($ thousands, except where noted)**	**2019**	**2018**	**2017**	**2016**
Fair value of investment properties	$2,928,181	$2,249,918	$2,074,133	$1,874,294
Less: fair value of commercial properties	($86,240)	($90,370)	($107,225)	($104,985)
Fair value of residential properties	$2,841,941	$2.159,549	$1,966,908	$1,769,309
Total residential suites at year end	18,337	16,731	16,574	16,304
Fair value per suite	**$154,984**	**$129,075**	**$118,674**	**$108,520**
Increase (decrease) in fair value per suite(%)	**20.07%**	**8.76%**	**9.36%**	**4,81%**
Weighted average implied capitalization rate	5.20%	5.65%	5.51%	5.85%
Increase (decrease) in cap rate (year-over-year)(%)	(7.96%)	2.54%	(5.81%)	(1.68%)
Net operating income ("NOI")	$131,370	$118,200	$108,194	$98,151
Increase in NOI (year-over-year)(%)	11.14%	9.25%	10.23%	19.86%
NOI Margin (% of total revenue)	55.42%	54.10%	52.65%	52.44%

Trending Fair Value per Residential Suite



Capital Expenditures

During 2019, Skyline Apartment REIT acquired 1,779 apartment units through the acquisition of 23 new properties for a total investment (inclusive of closing costs) of $382.3 million.

With the exception of new development properties acquired; in general, Skyline Apartment REIT is purchasing property at substantially less than current replacement costs and is committed to increasing the value of these assets by investing in capital expenditure initiatives and other programs in order to improve the overall quality of the portfolio and ultimately to sustain and expand the portfolio's future rental income-producing potential over its expected life span.

In correlation with industry peers, Skyline Apartment REIT has two types of capital expenditures: maintenance capital expenditures and stabilizing and value-enhancing capital expenditures. The main difference between these two types of capital expenditures is whether the costs incurred are to maintain existing cash flows, or to achieve the longer-term goal of producing enhanced cash flows and Unitholder distributions.

Maintenance capital expenditures vary with market conditions and are partially related to unit turnover. Management projects that its annual overall maintenance capital expenditures are approximately $375 per residential suite. These expenditures are in addition to normal repairs and maintenance expenditures which are typically in the range of $800 per residential suite annually.

Stabilizing and value-enhancing capital expenditures are made with the intention of increasing the productivity of the portfolio. They improve the economic life span and value of the properties and are mainly long-term in nature. The timing of these expenditures varies according to Management's capital plans and they are funded with credit facilities, mortgage advances, refinancing and equity issuances.

During the year, the REIT invested $90.2 million in structural improvements, common area improvements, improvements of existing suites, and portfolio efficiency programs ("**PEP**") throughout the portfolio. These capital initiatives are completed with the intention of increasing revenues, reducing expenses, maintaining occupancy levels, and increasing overall tenant satisfaction.

Capital Structure

"Capital" is defined as the aggregate of debt and Unitholders' equity. Management's objectives with respect to capital is to maintain its ongoing ability to fund its distributions to Unitholders, to meet its repayment obligations under mortgages and other credit facilities, and to ensure there are sufficient funds available to meet the capital requirements of the portfolio.

Skyline Apartment REIT's Declaration of Trust permits the maximum amount of total debt to be 70% of the gross book value of the REIT's assets. Under IFRS reporting, Management still continues to evaluate LTV ratios on both a market value basis and a traditional historical cost basis, whereby historical cost is defined as the acquisition cost of the properties plus the capital improvements expended thereon.

The total capital of Skyline Apartment REIT as at December 31, 2019 is summarized in the following chart:

Mortgage Summary **($ thousands, except where noted)**	**2019**	**2018**
Mortgages payable	$1,497,309	$1,172,504
Line of credit	71,090	24,009
Total Debt	**$1,568,399**	**$1,196,513**
Limited partnership units	52,681	49,035
Unitholders' equity	1,269,114	982,427
Total capital	**$2,890,194**	**$2,227,975**
Mortgage debt to historical cost	62.49%	60.27%
Mortgage debt to fair value	51.13%	52.11%
Total debt to historical cost	65.46%	61.50%
Total debt to fair value	53.56%	53.18%
Weighted average mortgage interest rate	3.25%	3.58%
Weighted average mortgage term to maturity	4.94 yrs	4.62 yrs

Mortgages Payable **($ thousands, except where noted)**	**Future minimum principal payments**	**% of total mortgages**
2020	**$164,726**	11.0%
2021	**189,586**	12.7%
2022	**227,624**	15.2%
2023	**164,561**	11.0%
2024	**118,310**	7.9%
Thereafter	**632,502**	42.2%
Total mortgages payable as of December 31, 2019	**$1,497,309**	**100.0%**

Investment Summary

During 2019, Units of Skyline Apartment REIT were issued under the accredited investor exemption, through the Employee Unit Purchase Plan ("EUPP") under the employee exemption, and under the Confidential Offering Memorandum released in April 2019. During the year, the REIT received net proceeds of $59.9 million through new investments and DRIP enrolment, net of redemptions.

During 2019, Management purchased for cancellation and/or redeemed units for $22.5 million at 100% of Unit Market value.

REIT Unitholders - Investment Activity **($ thousands, except where noted)**	**2019**		**2018**	
	Number of Units	**Amount ($)**	**Number of Units**	**Amount ($)**
REIT units outstanding, beginning of year	**58,002,571**	**$709,471**	**55,016,860**	**$665,057**
Proceeds from REIT units issued	3,351,643	57,792	2,832,091	45,310
Exchange of LP units	10,717	185	200,689	3,204
Units issued through DRIP	1,365,116	23,408	3,154,125	50,229
Units issued through EUPP	58,535	1,006	41,435	658
Redemptions - REIT units	(1,299,132)	(22,291)	(3,041,940)	(51,783)
Redemptions - REIT units (exchanged LP units)	(10,717)	(185)	(200,689)	(3,204)
REIT units outstanding, end of year	**61,478,733**	**$769,386**	**58,002,571**	**$709,471**
Weighted average REIT units outstanding	**60,019,462**		**56,015,645**	
Number of new investors (1)		**225**		**90**
Number of repeat investors (2)		**156**		**147**
Number of redemptions		**312**		**294**
New investment average ($)		**116**		**117**
Repeat investment average ($)		**165**		**163**
Redemption average ($)		**(78)**		**(135)**

(1) Excluding EUPP - Employee Unit Purchase Plan
(2) Excluding DRIP - Distribution Reinvestment Plan

LP Unitholders - Investment Activity ($ thousands, except where noted)	**2019** Number of Units	**2019** Amount ($)	**2018** Number of Units	**2018** Amount ($)
LP units outstanding, beginning of year	**3,064,709**	**$49,035**	**3,172,383**	**$47,586**
Proceeds from LP units issued	-	-	-	-
Units issued through DRIP	-	-	93,015	1,487
Redemptions - LP units (exchanged to REIT units)	(10,717)	(185)	(200,689)	(3,204)
Change in fair value	-	3,831	-	3,166
LP units outstanding, end of year	**3,053,992**	**$52,681**	**3,064,709**	**$49,035**
Weighted average LP units outstanding	**3,063,308**		**3,008,762**	
Number of new investors		**-**		**-**
Number of redemptions		**2**		**8**
New investment average ($)		**-**		**-**
Redemption average ($)		**(92)**		**(301)**

Unitholder Taxation

For taxable Canadian residents, Unitholder distributions are treated as follows for tax purposes:

Regular Distributions	**2019**
Dividends	0.00%
Other Income	0.00%
Capital Gains	0.00%
Return of Capital	100.0%
TOTAL	**100.0%**

Related Party Transactions

The executive officers of Skyline Apartment REIT do not receive direct salary compensation from the REIT. Rather, Skyline Incorporated, as General Partner ("**GP**") of the REIT, has a 20% deferred interest in the properties ("**GP Sharing**"). Additionally, the executive officers receive compensation from the management companies to the REIT and Limited Partnership ("**Management Services**").

GP Sharing

Distributions under the GP Sharing commence once the equivalent of the total investors' equity has been effectively distributed on a property by property basis. Once triggered, any future income from operations is shared at a ratio of 20% to the GP: 80% to the LP (which indirectly means its investors). In addition, on any disposition, the GP is entitled to 20% of the equity growth of the property net of any outstanding amounts owing to investors. The GP Sharing calculation is done on a per property basis, which incents management to ensure that each property is performing optimally.

GP Sharing **($ thousands, except where noted)**	**2019**	**2018**
General Partner sharing on income	$4,839	$3,607
General Partner sharing on dispositions	2,808	20,110
Total General Partner sharing on distributions	**$7,647**	**$23,717**

Management Services

Fees paid during the past two years are as follows:

Management Fees **($ thousands, except where noted)**	**2019**	**2018**
Asset management fees	$5,196	$4,815
Wealth management fees	3,680	3,163
Underwriting management fees	1,251	1,043
Total Management Fees	**$10,127**	**$9,021**

The Asset Management Agreement provides for the payment of an annual asset Management Fee to the Asset Manager during the term in an amount equal to 2% of the adjusted gross revenues of the properties, which will be calculated and payable monthly. Under the Asset Management Agreement, the Asset Manager is responsible for employment expenses of its personnel, rent and other office expenses of the Asset Manager, and the expenses of the non-Independent Trustees and officers of Skyline Apartment REIT who are directors, officers or employees of the Asset Manager or of an affiliate of the Asset Manager (except expenses incurred while attending meetings of the Board of Trustees).

The Exempt Market Dealer ("**EMD**") Agreement provides for the payment of a wealth management fee, payable monthly, equal to 1/12 of 0.3% of Skyline Apartment REIT's equity under management (calculated as the product of the outstanding REIT Units multiplied by the then-market value of one REIT Unit). The EMD will also be entitled to an equity raise fee equal to a maximum of 1.0% on the capital raised in offerings of REIT Units, subject to adjustment. Under the EMD Agreement, the EMD is responsible for employment expenses of its personnel, rent and other office expenses of the EMD in connection with providing services to Skyline Apartment REIT under the EMD Agreement.

There is an underwriting services arrangement with Skyline Mortgage Financing Inc. (the "Underwriting Manager") Pursuant to such arrangement, the Underwriting Manager provides consulting services to Skyline Apartment REIT, Skyline Real Estate LP and its Subsidiaries to assist them in obtaining mortgage financing for the properties upon terms and at rates that are commercially competitive. Skyline Real Estate LP pays the Underwriting Manager the following fees for providing these consulting services 1) for assumptions of mortgages on acquisitions: $5,000 and 2) for all other mortgages: 50 bps on the mortgage principal. Under the terms of the arrangement, the Underwriting Manager is responsible for employment expenses of its personnel, rent and other office expenses of the Underwriting Manager incurred in connection with providing its consulting services.

Risks And Uncertainties

Skyline Apartment REIT must adhere to specific operating and investment guidelines as set out in the Declaration of Trust. These guidelines are established to limit to the best extent possible the risks and uncertainties that exist.

COVID-19 Coronavirus Pandemic

The COVID-19 coronavirus pandemic may adversely affect trade and local, national or global economies, and could result in a general or acute decline in economic activity in the markets in which Skyline Apartment REIT operates.

In some cases, the REIT has entered into deferral arrangements (not rent abatement) with vulnerable tenants to permit them to weather the closure and re-open strong. While the REIT enjoys a high occupancy, productivity on existing vacancy within the portfolio has been low owing to tenants re-focusing their business internally. As a result, leasing of new space is expected to be tempered in the next quarter.

Additionally, fluctuation in interest rates or other financial market volatility may adversely affect Skyline Apartment REIT's ability to refinance existing indebtedness on its maturity or on terms that are as favourable as the terms of existing indebtedness, which may impact negatively on Skyline Apartment REIT's performance, or may adversely affect the ability of Skyline Apartment REIT to complete acquisitions on financially desirable terms.

The extent to which COVID-19 impacts Skyline Apartment REIT will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others. If the outbreak of COVID-19 and related developments lead to a prolonged or significant impact on global, national or local markets or economic growth, Skyline Apartment REIT's cash flows, financial condition or results of operations, its ability to raise additional financing and its ability to make cash distributions to Unitholders may be materially and adversely affected. Further, the COVID-19 coronavirus pandemic may cause disruptions to Skyline Apartment REIT's business and operational plans. These disruptions may severely impact Skyline Apartment REIT's ability to carry out its business plans for 2020 in accordance with the Use of Available Funds section above.

Real Property Ownership

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, demand for Apartment premises, competition from other Apartment premises and various other factors.

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

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit Skyline Apartment REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Skyline Apartment REIT were required to liquidate its real property investments, the proceeds to Skyline Apartment REIT might be significantly less than the aggregate value of its properties on a going concern basis.

Skyline Apartment REIT will be subject to the risks associated with debt financing, including the risk that existing mortgage indebtedness secured by the Properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

Real Property Ownership

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, demand for retail premises, competition from other retail premises and various other factors.

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

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit Skyline Apartment REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Skyline Apartment REIT were required to liquidate its real property investments, the proceeds to Skyline Apartment REIT might be significantly less than the aggregate value of its properties on a going concern basis.

Skyline Apartment REIT will be subject to the risks associated with debt financing, including the risk that existing mortgage indebtedness secured by the Properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

Tenant Terminations and Financial Stability

Skyline Apartment REIT's Distributable Income would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the Existing Properties and any additional properties in which Skyline Apartment REIT acquires an interest were not able to be leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to Skyline Apartment REIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting Skyline Apartment REIT's investment may be incurred. Furthermore, at any time, a tenant of any of Skyline Apartment REIT's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to Skyline Apartment REIT. The ability to rent unleased space in the properties in which Skyline Apartment REIT will have an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property required by a new tenant. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on Skyline Apartment REIT's financial condition.

Revenue Producing Properties

The Properties generate income through rental payments made by the tenants thereof. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to Skyline Apartment REIT than the existing lease.

Competition for Real Property Investments

Skyline Apartment REIT competes for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those desired by Skyline Apartment REIT. A number of these investors may have greater financial resources than those of Skyline Apartment REIT, or operate without the investment or operating restrictions of Skyline Apartment REIT or according to more flexible conditions. An increase in the availability of investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Competition for Tenants

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with Skyline Apartment REIT in seeking tenants. The existence of competing developers, managers and owners and competition for Skyline Apartment REIT's tenants could have an adverse effect on Skyline Apartment REIT's ability to lease space in its properties and on the rents charged.

Interest Rates

It is anticipated that the market price for the REIT Units at any given time may be affected by the level of interest rates prevailing at that time. A rise in interest rates may have a negative effect on the market price of the REIT Units. Changes in interest rates may also have effects on vacancy rates, rent levels, refurbishing costs and other factors affecting Skyline Apartment REIT's business and profitability.

General Economic Conditions

Skyline Apartment REIT is affected by general economic conditions, local real estate markets, competition from other available rental premises, including new developments, and various other factors. The existence of competing developers, managers and owners and competition for Skyline Apartment REIT's tenants could have an adverse effect on Skyline Apartment REIT's ability to lease space in its properties and on the rents charged, increased leasing and marketing costs and increased refurbishing costs necessary to lease and release space, all of which could adversely affect Skyline Apartment REIT's revenues and, consequently, its ability to meet its obligations. In addition, any increase in the supply of available space in the markets in which Skyline Apartment REIT operates or may operate could have an adverse effect on Skyline Apartment REIT.

General Uninsured Losses

Skyline Apartment REIT carries comprehensive general liability, fire, flood, extended coverage, rental loss and pollution insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as from wars) which are either uninsurable or not insurable on an economically viable basis. Skyline Apartment REIT has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if economical to do so. Should an uninsured or underinsured loss occur, Skyline Apartment REIT could lose its investment in, and anticipated profits and cash flows from, one or more of its Properties, but Skyline Apartment REIT would continue to be obligated to repay any recourse mortgage indebtedness on such Properties.

Availability of Cash Flow

Distributable income may exceed actual cash available to Skyline Apartment REIT from time to time because of items such as principal repayments of debt, tenant inducements, leasing commissions and capital expenditures, if any. Skyline Apartment REIT may be required to use part of its debt capacity or reduce distributions in order to accommodate such items.

Access to Capital

The real estate industry is highly capital intensive. Skyline Apartment REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There is no assurance that capital will be available when needed or on favourable terms.

Environmental and Climate Change Risk

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. Under various laws, Skyline Apartment REIT could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs. Environmental laws and regulations may change and Skyline Apartment REIT may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on Skyline Apartment REIT's business, financial condition or results of operation. It is the Asset Manager's policy that where a property is purchased and new financing is obtained, Phase I Environmental Assessments are performed by an independent and experienced environmental consultant. In the case of mortgage assumption, the vendor will be asked to provide a satisfactory Phase I and/or Phase II Environmental Assessment that the Asset Manager will rely upon and/or determine whether an update is necessary. Skyline Apartment REIT is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the Properties or any pending or threatened claims relating to environmental conditions at the Properties.

Natural disasters and severe weather such as floods, blizzards and rising temperatures may result in damage to the Properties. The extent of Skyline Apartment REIT's casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Skyline Apartment REIT is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of Skyline Apartment REIT's buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on Skyline Apartment REIT's business by increasing the cost of property insurance, and/or energy at the Properties. As a result, the consequences of natural disasters, severe weather and climate change could increase the Skyline Apartment REIT's costs and reduce Skyline Apartment REIT's cash flow.

Unitholder Liability

Because of uncertainties in the law relating to investment trusts, there is a risk, which is considered by counsel to be remote in the circumstance, that a REIT Unitholder could be held personally liable for obligations of Skyline Apartment REIT (to the extent that claims are not satisfied by Skyline Apartment REIT) in respect of contracts which Skyline Apartment REIT enters into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes and possibly certain other statutory liabilities. The Trustees intend to cause Skyline Apartment REIT's operations to be conducted in such a way as to minimize any such risk including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of Skyline Apartment REIT contain an express disavowal of liability against Unitholders.

Dependence on Key Personnel

The management of Skyline Apartment REIT depends on the services of certain key personnel. The termination of employment by the Asset Manager or the Property Manager of any of these key personnel could have a material adverse effect on Skyline Apartment REIT.

Potential Conflicts of Interest

Skyline Apartment REIT may be subject to various conflicts of interest because of the fact that the Trustees and senior officers of Skyline Apartment REIT and the senior officers of the Managers are engaged in a wide range of real estate and other business activities. Skyline Apartment REIT may become involved in transactions which conflict with the interests of the foregoing.

The Trustees may from time to time deal with persons, firms, institutions or corporations with which Skyline Apartment REIT may be dealing, or which may be seeking investments similar to those desired by Skyline Apartment REIT. The interests of these persons could conflict with those of Skyline Apartment REIT. In addition, from time to time, these persons may be competing with Skyline Apartment REIT for available investment opportunities.

The Skyline Apartment REIT Declaration of Trust contains "conflicts of interest" provisions requiring Trustees to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Tax Related Risks

There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects Skyline Apartment REIT or the Unitholders.

In addition, REIT Unitholders may become subject to provincial taxes, such as Ontario Land Transfer Tax, in respect of their REIT Units.

If Skyline Apartment REIT fails or ceases to qualify as a mutual fund trust for purposes of the Tax Act, the tax consequences described under Item 6 "Income Tax Consequences and RRSP Eligibility" would in some respects be materially and adversely different. Such adverse differences would include that if Skyline Apartment REIT did not qualify as a mutual fund trust throughout a taxation year, it would be subject to a special tax under Part XII.2 of the Tax Act for such taxation year to the extent that its designated income (which includes income from real property) is distributed to a designated beneficiary (which includes non-resident persons and certain tax-exempt persons).

If investments in Skyline Apartment REIT become publicly listed or traded, there can be no assurances that Skyline Apartment REIT will not be subject to the SIFT Rules, as described under "Income Tax Consequences and RRSP Eligibility – SIFT Rules", at that time.

Skyline Apartment REIT or its subsidiaries may be reassessed for taxes from time to time. Such reassessments together with associated interest and penalties could adversely affect Skyline Apartment REIT.

Since the net income of Skyline Apartment REIT will be distributed on a monthly basis, a purchaser of a REIT Unit may become taxable on a portion of the net income of Skyline Apartment REIT accrued or realized by Skyline Apartment REIT in a month before the time the REIT Unit was purchased but which was not paid or made payable to Unitholders until the end of the month and after the time the REIT Unit was purchased. A similar result may apply on an annual basis in respect of a portion of capital gains accrued or realized in a year before the time the REIT Unit was purchased, but which is paid or made payable to Unitholders at year-end and after the time the REIT Unit was purchased.

The LRE Rules could potentially apply to Skyline Apartment REIT if a person (or group of persons) was to acquire more than 50% of the fair market value of the REIT Units, with the consequences described under Item 6 "Income Tax Consequences and RRSP Eligibility – Taxation of Skyline Apartment REIT".

Dilution

The number of REIT Units that Skyline Apartment REIT is authorized to issue is unlimited. The Skyline Apartment REIT Trustees have the discretion to issue additional REIT Units in other circumstances, pursuant to Skyline Apartment REIT's various incentive plans. Any issuance of additional REIT Units may have a dilutive effect on the holders of REIT Units.

Liquidity

An investment in REIT Units is an illiquid investment. There is currently no market through which REIT Units may be sold and redemptions are subject to restrictions imposed in the Declaration of Trust and applicable securities regulation. Skyline Apartment REIT is not a "reporting issuer" in any jurisdiction, and a prospectus has not qualified the issuance of REIT Units. Accordingly, investors will be unable to sell their REIT Units, subject to some limited exceptions. See Item 10 – Resale Restrictions. Consequently, holders of REIT Units may not be able to liquidate their investment in a timely manner.

Restrictions on Potential Growth and Reliance on Credit Facilities

The payout by Skyline Apartment REIT of a substantial part of its operating cash flow could adversely affect Skyline Apartment REIT's ability to grow unless it can obtain additional financing. Such financing may not be available, or renewable, on attractive terms or at all. In addition, if current credit facilities were to be cancelled or could not be renewed at maturity on similar terms, Skyline Apartment REIT could be materially and adversely affected.

Financing

Skyline Apartment REIT is subject to the risks associated with debt financing, including the risk that Skyline Apartment REIT may be unable to make interest or principal payments or meet loan covenants, the risk that defaults under a loan could result in cross defaults or other lender rights or remedies under other loans, and the risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness. A portion of the Acquisition and Operating Facility is at floating interest rates, and accordingly, changes in short-term borrowing will affect Skyline Apartment REIT's costs of borrowing.

Nature of REIT Units

The REIT Units are not the same as shares of a corporation. As a result, the Unitholders will not have the statutory rights and remedies normally associated with share ownership, such as the right to bring "oppression" or "derivative" actions.

The REIT Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that act or any other legislation. Furthermore, Skyline Apartment REIT is not a trust company and, accordingly, it is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unexpected Costs or Liabilities Related to Acquisitions

A risk associated with acquisitions is that there may be an undisclosed or unknown liability concerning the acquired property, and Skyline Apartment REIT may not be indemnified for some or all of these liabilities. Following an acquisition, Skyline Apartment REIT may discover that it has acquired undisclosed liabilities, which may be material.

The due diligence procedures performed by the Asset Manager are designed to address this risk. The Asset Manager performs what it believes to be an appropriate level of investigation in connection with the acquisition of properties by Skyline Apartment REIT and seeks through contract to ensure that risks lie with the appropriate party.

Cybersecurity Risk

The efficient operation of Skyline Apartment REIT's business is dependent on computer hardware and software systems. Information systems are vulnerable to cybersecurity incidents. A cybersecurity incident is considered to be any material adverse event that threatens the confidentiality, integrity or availability of Skyline Apartment REIT's information resources. A cybersecurity incident is an intentional attack or an unintentional event including, but not limited to, malicious software, attempts to gain unauthorized access to data or information systems, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Skyline Apartment REIT's primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to its reputation, damage to its business relationships with tenants, the disclosure of confidential information including personally identifiable information, potential liability to third parties, loss of revenue, additional regulatory scrutiny and fines, as well as litigation and other costs and expenses. Skyline Apartment REIT has cybersecurity insurance in place to mitigate cybersecurity risk. These measures, as well as its increased awareness of a risk of a cyber incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

Subsequent Events

Subsequent to year end, RELP acquired one property with an aggregate cost of $20,000. The property was financed with a mortgage of $14,521, with an interest rate of 2.85% and a maturity of 2030.

Effective February 11, 2020, the price per unit for newly issued units and units to be redeemed increased to $21.00 from $17.25.

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. This global pandemic has disrupted economic activities and has resulted in many organizations implementing system-wide closure of programming and services. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. This may impact the timing and amounts realized on the organization's cash flows and assets.

In response to the effects of COVID-19 mentioned above, on March 19, 2020 the Board of Trustees agreed to apply a monthly redemption limit of $50K for all requests received, as outlined in Skyline Apt. REIT's Declaration of Trust, in an effort to safeguard the capital of Skyline Apt. REIT, and mitigate its liquidity risk. Subsequent to year end, the following investment activity occurred:

REIT Unitholders - 2020 Investment Activity (to date) **($ thousands, except where noted)**	**Number of Units**	**Amount ($)**
REIT units outstanding, January 1, 2020	**61,478,733**	**$769,386**
Proceeds from REIT units issued	411,971	8,651
Exchange of LP units	-	-
Units issued through DRIP	383,351	7,625
Units issued through EUPP	23,930	486
Redemptions - REIT units	(261,926)	(5,342)
Redemptions - REIT units (exchanged LP units)	-	-
REIT units outstanding, April 30, 2020	**62,036,023**	**791,490**
Weighted average REIT units outstanding	**61,517,931**	

LP Unitholders - 2020 Investment Activity (to date) **($ thousands, except where noted)**	**Number of Units**	**Amount ($)**
LP units outstanding, January 1, 2020	**3,053,992**	**$52,681**
Proceeds from LP unit issued	-	-
Units issued through DRIP	-	-
Redemptions - LP unit	-	-
LP units outstanding, April 30, 2020	**3,053,992**	**$52,681**
Weighted average LP units outstanding	**3,053,992**	

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Chartered Professional Accountants

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of: Skyline Apartment Real Estate Investment Trust

Opinion

We have audited the accompanying financial statements of Skyline Apartment Real Estate Investment Trust, which comprise the consolidated statement of financial position as at December 31, 2019 and December 31, 2018 and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Skyline Apartment Real Estate Investment Trust as at December 31, 2019 and December 31, 2018 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis of 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 Financial Statements section of our report. We are independent of Skyline Apartment Real Estate Investment Trust in accordance with the ethical requirements that are relevant to our audit of the 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards 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 Skyline Apartment Real Estate Investment Trust's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate Skyline Apartment Real Estate Investment Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Skyline Apartment Real Estate Investment Trust's financial reporting process.

GUELPH OFFICE 197 HANLON CREEK BLVD, UNIT 103, GUELPH, ON, N1C 0A1 • TEL: 519-822-9933 • FAX: 519-822-9212 • rlb.ca

Auditor's Responsibilities for the Audit of the 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.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at RLB LLP’s website at: www.rlb.ca/additional-auditor-responsibilities-consolidated. This description forms part of our auditor's report.

RLB LLP

Guelph, Ontario
March 24, 2020

Chartered Professional Accountants
Licensed Public Accountants

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

(in thousands of Canadian dollars)

	2019	2018
ASSETS		
Investment properties (note 6)	$ 2,928,181	$ 2,249,919
Property, plant and equipment (note 8)	4,413	321
Inventory (note 3(h))	3,293	3,495
Other assets (note 9)	5,276	4,126
Mortgages and notes receivable (note 16)	44	47
Due from related parties (note 11)	18	1,021
Accounts receivable (note 15)	3,300	3,155
	$ 2,944,525	$ 2,262,084
LIABILITIES AND UNITHOLDERS' EQUITY		
Mortgages payable (notes 10, 15)	$ 1,497,309	$ 1,172,504
Limited partnership units (notes 15, 19)	52,681	49,035
Due to related parties (note 11)	21,819	376
Tenant deposits	16,542	14,426
Accounts payable and accrued liabilities (note 15)	13,834	18,709
Bank overdraft (note 15)	2,136	598
Revolving credit facilities (note 15)	71,090	24,009
	1,675,411	1,279,657
Unitholders' equity (page 6)	1,269,114	982,427
	$ 2,944,525	$ 2,262,084

________________________ Trustee   ________________________ Trustee

See notes to the consolidated financial statements

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousands of Canadian dollars)

	2019	2018
OPENING BALANCE	$ 982,427	$ 882,281
Proceeds from units issued (note 18)	57,792	45,310
Units issued through distribution reinvestment plan (note 18)	24,414	50,887
Exchange of Class B, C and D limited partnership units (notes 11, 18)	185	3,204
Income and comprehensive income for the year	283,954	131,730
Issuance costs (note 11)	(672)	(477)
Redemptions (note 18)	(22,476)	(51,783)
Distributions paid	(56,510)	(78,725)
CLOSING BALANCE	$ 1,269,114	$ 982,427

See notes to the consolidated financial statements

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousands of Canadian dollars)

	2019	2018
PROPERTY REVENUES		
Residential rent	$ 218,436	$ 199,713
Commercial rent	18,300	18,181
Condominium sales	305	575
	237,041	218,469
DIRECT PROPERTY EXPENSES		
Property taxes	31,524	30,374
Other direct property costs	48,310	44,049
Utilities	25,628	25,441
Condominium cost of sales	209	405
	105,671	100,269
NET PROPERTY INCOME	131,370	118,200
OTHER INCOME AND EXPENSES		
Financing costs (note 12)		
Interest paid on debt	52,297	46,900
Distributions on partnership units	10,545	27,936
Administrative expenses	4,452	3,940
Asset management fees (note 11)	5,196	4,815
Wealth management fees (note 11)	3,680	3,163
Amortization	422	188
Interest and other income (note 11)	(79)	(1,129)
	76,513	85,813
INCOME BEFORE THE UNDERNOTED	54,857	32,387
Fair value gain (note 13)	232,928	102,509
Fair value loss on LP units	(3,831)	(3,166)
	229,097	99,343
INCOME AND COMPREHENSIVE INCOME for the year	$ 283,954	$ 131,730

See notes to the consolidated financial statements

SKYLINE APARTMENT REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousands of Canadian dollars)

	2019	2018
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Income and comprehensive income for the year	$ 283,954	$ 131,730
Items not requiring an outlay of cash		
Amortization (note 8)	422	188
Amortization of financing costs (note 12)	4,134	3,610
Financing costs in operations (note 12)	58,534	70,485
Fair value gain (note 13)	(232,928)	(102,509)
Fair value loss on LP units	3,831	3,166
	117,947	106,670
Changes in non-cash working capital		
Inventory	202	405
Other assets	(1,150)	1,223
Accounts receivable	(145)	866
Tenant deposits	2,116	1,012
Accounts payable and accrued liabilities	(4,875)	2,674
	114,095	112,850
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Advances (to) from related parties (note 11)	22,446	0
Mortgages payable (net repayments and advances) (note 10)	324,390	125,253
Mortgages discharged due to sale of investment properties (note 10)	(3,719)	(90,657)
Interest on mortgages payable (note 12)	(45,498)	(41,634)
Distributions paid on partnership units (notes 11, 12, 19)	(10,545)	(27,936)
Net revolving credit facility (repayments) proceeds (note 15)	47,081	24,009
Interest paid on revolving credit facility (note 12)	(2,081)	(800)
Bank overdraft (repayments) proceeds (note 15)	1,538	(4,132)
Interest paid on short term loan (note 12)	(410)	(115)
Proceeds from units issued (net of distribution reinvestment plan) (note 18)	57,792	45,310
Proceeds from limited partnership units issued (note 19)	0	1,488
Issuance costs (note 11)	(672)	(477)
Redemption of units (note 18)	(22,476)	(51,783)
Distributions paid (net of distribution reinvestment plan)	(32,096)	(27,838)
	335,750	(49,312)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Additions to investment properties (note 6)	(472,532)	(238,905)
Proceeds on disposition of investment properties (note 6)	23,480	165,628
Proceeds on reclassification of owner-occupied property to property, plant and equipment (note 8)	3,718	0
Additions to property, plant and equipment (note 8)	(4,514)	(154)
Notes receivable (net repayments and advances) (note 16)	3	8,479
	(449,845)	(64,952)
DECREASE IN CASH for the year	0	(1,414)
CASH, beginning of year	0	1,414
CASH, end of year	$ 0	$ 0

See notes to the consolidated financial statements

1. NATURE OF BUSINESS

Skyline Apartment Real Estate Investment Trust ("Skyline Apt. REIT") is an unincorporated, open-ended private real estate investment trust established under the laws of the Province of Ontario that was created pursuant to a Declaration of Trust dated June 1, 2006. During the year, Skyline Apt. REIT issued an additional 4,786,011 (2018 - 6,228,340) units for an aggregate issue price of $82,206 (2018 - $96,197). Skyline Apt. REIT used some of the proceeds it received to redeem 1,309,849 (2018 - 3,242,629) units for an aggregate redemption price of $22,476 (2018 - $51,783). The remaining proceeds were used to invest in Skyline Operating Trust. Skyline Operating Trust then used the proceeds to invest in Skyline Real Estate Limited Partnership ("RELP"). RELP used part of the proceeds it received on the subscription of its partnership units, together with mortgage financing and a line of credit, to invest in multi-residential investment properties. As of December 31, 2019, RELP owned two hundred and three (2018 - one hundred and eighty-five) multi-residential investment properties and six (2018 - six) commercial investment properties, all of which are located in Canada.

RELP was created on June 1, 2006 as a limited partnership under the laws of the Province of Ontario. The general partner is Skyline Incorporated and the majority limited partner is Skyline Operating Trust. Skyline Operating Trust has issued 100% of its units to Skyline Apt. REIT, and is 100% controlled by Skyline Apt. REIT.

Skyline Apt. REIT is domiciled in Ontario, Canada. The address of Skyline Apt. REIT's registered office and its principal place of business is 5 Douglas Street, Suite 301, Guelph, Ontario, N1H 2S8.

2. BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

The consolidated financial statements of Skyline Apt. REIT for the year ended December 31, 2019 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the years presented, unless otherwise noted.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Skyline Apt. REIT's accounting policies.

The consolidated financial statements are presented in accordance with IAS 1 - Presentation of consolidated financial statements ("IAS 1"). Skyline Apt. REIT has elected to present the Statement of Income and Comprehensive Income in one statement.

The consolidated financial statements for the year ended December 31, 2019 (including comparatives) were approved for issue by the Board of Trustees on March 24, 2020.

(b) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on a historical cost basis modified to include the fair value measurement of investment properties and assets held for sale, as set out in the relevant accounting policies.

2. BASIS OF PRESENTATION (continued)

(c) FUNCTIONAL CURRENCY AND PRESENTATION

The consolidated financial statements are presented in Canadian dollars, which is also Skyline Apt. REIT's functional currency. All financial information presented in Canadian dollars is rounded to the nearest thousand.

Skyline Apt. REIT presents its consolidated statement of financial position based on the liquidity method, where all assets and liabilities are presented in the ascending order of liquidity.

(d) USE OF ESTIMATES

The preparation of these consolidated financial statements requires Skyline Apt. REIT to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimates are revised and the revision affects both current and future periods.

Significant estimates and assumptions include the fair values assigned to investment properties, useful lives of assets to calculate amortization, and allowances for doubtful accounts. Valuation of investment properties is one of the principal estimates and uncertainties of these consolidated financial statements. Refer to note 6 for further information on estimates and assumptions made in the determination of the fair value of investment properties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS and include the following significant accounting policies:

Accounting standards implemented in 2019

Effective January 1, 2019, Skyline Apt. REIT has adopted IFRS 16 - Leases ("IFRS 16") which replaces existing lease guidance in IAS 17 - Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability for all leases, with exception for short-term leases and leases of low value assets. The requirements for lessor accounting have been carried forward substantially unchanged from IAS 17. The adoption of IFRS 16 was applied using the modified retrospective approach and thus there was no restatement of comparative information. Instead, the cumulative effect of applying this standard was recognized at the date of initial application, January 1, 2019. There was no material impact from the adoption of IFRS 16.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) INVESTMENT PROPERTIES

Investment properties are properties held to earn rental income and are accounted for using the fair value model, in accordance with IFRS 13 - Fair Value Measurement ("IFRS 13"). Rental income and operating expenses from investment properties are reported within 'revenue' and 'expenses' respectively.

Properties that are held for long term rental yields or for capital appreciation or both, and that are not occupied by Skyline Apt. REIT, are classified as investment properties, in accordance with IAS 40 - Investment Properties ("IAS 40")

In accordance with IFRS 3 - Business Combinations, when Skyline Apt. REIT acquires properties or a portfolio of properties and does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

In accordance with IAS 40, investment properties are measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value. Fair value is determined using a combination of external valuation processes and internal valuation techniques that are in accordance with IFRS 13. For properties purchased within one year of the reporting date, the purchase price is considered fair value, unless significant events or changes have occurred to the property that would significantly alter its fair value. Properties appraised by qualified third party appraisers within the past twelve months are not revalued, unless significant changes or events have occurred to the property since the appraisal date. A minimum of 20% of the total number of investment properties that account for at least 25% of the preceding year's total fair value of investment properties are appraised on an annual basis, such that each property is appraised by an independent third party at least once every five years. All other investment properties are valued internally, using market supported financial metrics that are in accordance with IFRS 13, in tandem with current property details including, among other things, rent rolls from current leases and assumptions about rental income from future leases in light of current market conditions, and, any cash outflows that could be expected in respect of the property except for those outflows that relate to liabilities recognized on the statement of financial position. Skyline Apt. REIT also uses extensive market comparable sales to support valuation capitalization rates for different types of assets in different markets. These valuations form the basis for the carrying amounts in the financial statements.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Investment properties that are being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

Subsequent expenditures are capitalized to the asset’s carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to Skyline Apt. REIT and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) INVESTMENT PROPERTIES (continued)

Skyline Apt. REIT uses the concept of stabilizing and value enhancing capital expenditures to understand when repairs and maintenance should be capitalized. A “stabilized property” is one that has been owned for a period of at least twenty-four months. All properties owned for a period of less than twenty-four months are referred to as “unstabilized”.

While a property is classified as unstabilized, costs incurred for repairs and maintenance in excess of $300 (not in thousands of Canadian dollars) per annum per suite may be allocated from repairs and maintenance to be capitalized to the cost of the respective building. Once a property is classified as stabilized, costs incurred for repairs and maintenance in excess of $800 (not in thousands of Canadian dollars) per annum per suite may be allocated from repairs and maintenance to be capitalized to the cost of the respective building.

Included in the determination of repairs and maintenance are costs incurred in incremental administrative wages for resident managers or on-site staff. Amounts in excess of $30 (not in thousands of Canadian dollars) per month per suite are allocated from resident manager’s wages to repairs and maintenance.

Changes in fair values are recognized in the consolidated statement of income and comprehensive income. Investment properties are derecognized when they have been disposed.

Where Skyline Apt. REIT disposes of a property at fair value in an arm’s length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income within the fair value adjustment on investment property.

Investment properties are reclassified to "Assets Held for Sale" when the criteria set out in IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met (see note 3(b)).

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

As investments are measured at fair value, they are implicitly tested for impairment annually. There is no specific impairment test relating to investment properties other than the fair value methodology.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) INVESTMENT PROPERTIES (continued)

The initial cost of properties under development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. The amount of capitalized borrowing costs is determined by reference to borrowings specific to the project. Borrowing costs are capitalized from the commencement of the development until the date of practical completion where the property is substantially ready for its intended use. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is when the property is capable of operating in the manner intended by Management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. If Skyline Apt. REIT has pre-leased space at or prior to the property being substantially ready for its intended use, and the lease requires tenant improvements which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

(b) ASSETS HELD FOR SALE

In accordance with IFRS 5, non-current assets comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. For this purpose, a sale is highly probable if Management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan.

At the date when an investment property ceases to be classified as held for sale, it is measured at the lower of its carrying amount before it was classified as held for sale, adjusted for any amortization or revaluations that would have been recognized had the investment property not been classified as held for sale, and its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of estimated future cash flows expected to arise from the continuing use and eventual disposal of the investment property.

(c) REVENUE RECOGNITION

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Skyline Apt. REIT has retained substantially all the risks and rewards of ownership of its investment properties and accounts for its rents from tenants as operating leases. Revenue from operating leases is recognized on a straight line basis over the term of the lease.

Tenant inducements are recognized at fair value at the inception of the lease and are amortized through revenue on a straight line basis over the life of the lease.

Sales of condominium units are recognized as revenue as of the date that the sale of the unit is closed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) FINANCIAL INSTRUMENTS

Skyline Apt. REIT's financial instruments and their respective classification and measurement characteristics, are as follows:

Asset/Liability	Classification/Measurement
Accounts receivable	Amortized cost
Mortgages and notes receivable	Amortized cost
Mortgages payable	Amortized cost
Limited partnership units	Fair value through profit or loss
Accounts payable and accrued liabilities	Amortized cost
Bank overdraft	Amortized cost
Revolving credit facilities	Amortized cost

Financial Assets

Financial assets are classified at initial recognition, as either financial assets at FVTPL, or amortized cost. Financial assets that give rise to specified payments of principal and interest are carried at amortized cost when they are held to collect contractual cash flows. All other financial assets are carried at fair value through profit or loss. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs for those financial assets not subsequently measured at fair value.

Skyline Apt. REIT’s financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or substantially all of the risks and rewards of ownership are transferred.

Skyline Apt. REIT’s financial assets are all classified as amortized cost and include accounts receivable and mortgages and notes receivable. They are initially recognized at fair value and subsequently measured at amortized cost less provision for impairment.

Provision for impairment is made based on the simplified expected credit loss ("ECL") model. Under the simplified ECL model, Skyline Apt. REIT estimates lifetime expected losses for its receivables at each statement of financial position date based on available information. To measure the expected losses, amounts receivable are grouped based on days past due. The results of the simplified ECL model are used to reduce the carrying amount of the financial asset through an allowance account, and the changes in the measurement of the allowance account are recognized through the profit and loss. Bad debt write-offs occur when RELP determines collection is not possible. If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring in the subsequent period, the impairment loss is reversed to no more than its previous carrying amount by adjusting the allowance. The reversal is recognized through profit and loss. Impaired receivables are derecognized when they become uncollectible.

Financial Liabilities

Financial liabilities are classified at initial recognition as either financial liabilities at FVTPL, or amortized cost, as appropriate. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) FINANCIAL INSTRUMENTS (continued)

Skyline Apt. REIT's financial liabilities are all classified as amortized cost, and include mortgages payable, bank overdraft, revolving credit facilities and accounts payable and accrued liabilities. These financial liabilities are measured initially at fair value and subsequently at amortized cost. The fair value of a non-interest bearing liability is its discounted payment amount. If the due date of the liability is less than one year, discounting is omitted.

Skyline Apt. REIT's mortgages payable consists of the legal liabilities owing pursuant to loans secured by mortgages and premiums and discounts recognized on loans assumed on acquisition of properties, netted against the transaction costs, and the effective interest method of amortization is applied to the premiums, discounts and transaction costs.

(e) INCOME TAXES

Skyline Apt. REIT is taxed as a 'Mutual Fund Trust' for income tax purposes. Skyline Apt. REIT, pursuant to its Declaration of Trust, distributes substantially all of its taxable income to unitholders and does not deduct such distributions or designations for income tax purposes. Accordingly, no provision for income taxes has been made. Income tax obligations relating to the distributions of Skyline Apt. REIT are the obligation of unitholders.

(f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost and amortized on the basis of its estimated useful life using the following methods and rates:

Computer equipment	- 55% declining balance basis
Equipment	- 20% declining balance basis
Owner-occupied property - building	- 4% declining balance basis

Amortization is recorded at 50% of the above rates in the year of addition.

(g) JOINT OPERATIONS

Skyline Apt. REIT considers investments in joint arrangements to be a joint operation when they jointly make operating, financial and strategic decisions over one or more investment property with another party, and have direct rights to the assets and obligations for the liabilities relating to the arrangement. When the arrangement is considered to be a joint operation, Skyline Apt. REIT will include their share of the underlying assets, liabilities, revenue and expenses in their financial results.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) INVENTORY

Inventory includes condominium units that are held for sale by Skyline Apt. REIT and are carried at the lesser of cost and net realizable value. Properties that were initially purchased as investment property for leasing and capital appreciation purposes are held as investment property on the statement of financial position until such time that Management develops the property into a condominium building where the units will be individually sold. At the time of development, the units are transferred from investment property to inventory at their deemed cost, being the fair market value at the time of transfer. Subsequent holding costs related to the property including maintenance, property tax and utilities, are not included in the cost of the inventory. The deemed cost of the property is allocated to the individual units that are held for sale and expensed at the time of sale of each unit.

(i) DISTRIBUTION REINVESTMENT PLAN (DRIP)

Skyline Apt. REIT has instituted a DRIP whereby unitholders may elect to have their distributions automatically reinvested in additional units. There are no special terms, such as premiums on distribution rates, for plan participants.

(j) FAIR VALUE MEASUREMENT

Fair value 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 under current market conditions. In estimating the fair value of an asset or a liability, Skyline Apt. REIT considers the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Assets and liabilities that are measured at fair value in the statement of financial position are categorized by level according to the significance of the inputs used in making the measurements. The levels of inputs are defined as follows:

Level 1 inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs
Inputs other than quoted prices (included in Level 1) that are observable for the asset or the liability, either directly or indirectly.

Level 3 inputs
Unobservable inputs for the asset or liability.

Skyline Apt. REIT's policy is to recognize transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) PROVISIONS

Provisions are recognized when Skyline Apt. REIT has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Provisions are measured at their present value by discounting the future cash flows from the expected date the obligation is to be settled. The discount rate used reflects current market assessments of the time value of money adjusted by the risk factor specific to the obligation. The unwinding of the discount due to the passage of time is recognized as interest expense.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective up to the date of issuance of Skyline Apt. REIT's consolidated financial statements, are disclosed below. Skyline Apt. REIT intends to adopt these standards, if applicable, when they become effective.

In March 2018 the IASB issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework). Definitions of financial statement elements were updated, and a new disclosure and presentation section was added. The revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020.

The IASB issued Definition of Material (Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors) in October 2018. The amendments clarify the definition of “material” and provide guidance to improve consistency for the application of materiality. The amended definition includes the concept of “obscuring” material information and clarifies that materiality is assessed for primary users of general purpose financial statements about a specific reporting entity. Amendments are effective for annual periods beginning January 1, 2020 and are applied prospectively with earlier application permitted.

In October 2018 the IASB issued Definition of a Business (Amendments to IFRS 3 – Business Combinations). The amendments provide guidance to help companies determine if an acquisition is of a business or a group of assets. The amendments confirm that an acquired set of activities and assets must include both an input and a process that contribute to the ability to create outputs but clarify that the process must be substantive. The amendments also introduce an optional concentration test that facilitates determination of whether a company has acquired a business. The amendments apply prospectively to acquisitions that occur on or after January 1, 2020. Earlier application is permitted.

Skyline Apt. REIT does not expect any significant impact as a result of these amendments.

(in thousands of Canadian dollars, except per unit amounts)

5. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Skyline Apt. REIT and its subsidiaries, Skyline Operating Trust and RELP.

Subsidiaries are entities over which Skyline Apt. REIT has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Subsidiaries are fully consolidated from the date control is transferred to Skyline Apt. REIT, and are de-consolidated from the date control ceases. Intercompany transactions between subsidiaries are eliminated on consolidation. All subsidiaries have a reporting date of December 31.

Skyline Apt. REIT carries out a portion of its activities through joint operations and records its proportionate share of assets, liabilities, revenues, expenses and cash flows of all joint operations in which it participates.

6. INVESTMENT PROPERTIES

Changes to the carrying amounts of investment properties presented in the statement of financial position can be summarized as follows:

	2019	2018
Balance at beginning of the year	$ 2,249,919	$ 2,074,133
Acquisitions through purchase of investment properties	382,291	225,107
Additions through capital expenditure on existing investment properties	90,241	13,798
Disposals through sale of investment properties	(23,480)	(165,628)
Reclassification due to change in use for the property to owner-occupied by RELP (note 8)	(3,718)	0
Fair value gain on investment properties and disposed properties (note 13)	232,928	102,509
Balance at end of the year	$ 2,928,181	$ 2,249,919

Asset acquisitions:

During the year ended December 31, 2019, Skyline Apt. REIT acquired twenty-three investment properties (2018 - sixteen) through purchase of assets. The results of these acquisitions are included in these consolidated financial statements from the date of acquisition. The following table outlines the cost, which includes the transaction costs of the assets acquired and the associated liabilities entered into as a result of these acquisitions:

	2019	2018
Acquisition cost of investment properties	$ 382,291	$ 225,107
Mortgages payable	(245,399)	(116,148)
Total identifiable net assets settled by cash	$ 136,892	$ 108,959

(in thousands of Canadian dollars, except per unit amounts)

6. INVESTMENT PROPERTIES (continued)

Future rental income:

Investment properties are subject to operating leases with tenants. Lease contracts are all typically non-cancelable for periods ranging from one year for residential tenants, and one to fifteen years for commercial tenants, from the commencement of the lease. Future minimum rental income from these agreements is as follows:

	2019	2018
Less than one year	$ 235,549	$ 200,743
Between one and three years	21,295	24,139
More than three years	393	406
	$ 257,237	$ 225,288

Fair value disclosure:

Skyline Apt. REIT uses an income approach to perform internal valuation calculations for the purposes of determining the fair market value of investment properties. The same approach is used for those properties with independent third party appraisals. Significant assumptions used for the valuation of the properties include the capitalization rate and the revenue and expenses for each property. As at December 31, 2019, all of Skyline Apt REIT's investment properties were valued using Level 3 inputs. There were no transfers into or out of Level 3 fair value measurements for investment properties held as at December 31, 2019 and December 31, 2018.

Skyline Apt. REIT categorizes its investment properties by region, and each region has a different range of capitalization rates, depending on the specific risk factors for each property in that region. The weighted average capitalization rates for commercial properties is 7.77% (2018 - 7.57%) and for residential properties is 5.14% (2018 - 5.48%). The overall weighted average capitalization rates for Skyline Apt. REIT's investment properties is 5.22% (2018 - 5.57%).

Overall, the capitalization rates for residential properties and commercial properties fall between:

	Residential		Commercial	
	2019	2018	2019	2018
Minimum	4.08%	4.53%	5.79%	5.94%
Maximum	6.50%	7.11%	9.23%	8.88%

Assumptions related to property revenues and expenses are based on the most recent annual results of each property, and where necessary, industry benchmarks.

In 2019, Skyline Apt. REIT valued $1,924,076 of its investment properties (including properties held for sale) internally (2018 - $1,316,779). The remainder of the investment property fair value was obtained through third party appraisals, not including those properties acquired during the year. In the year, this amounted to $1,004,105 (2018 - $933,139). Actual results may differ from these estimates and may be subject to material adjustment within the next fiscal year.

(in thousands of Canadian dollars, except per unit amounts)

6. INVESTMENT PROPERTIES (continued)

Fair value sensitivity:

Skyline Apt. REIT's investment properties are classified as Level 3 under the fair value hierarchy, as the inputs in the valuations of these investment properties are not based on observable market data. The following table provides a sensitivity analysis for the weighted average capitalization rate applied as at December 31, 2019:

As of December 31, 2019

Capitalization Rate Sensitivity Increase (Decrease)	Overall Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(1.00)%	4.22%	$ 3,622,063	$ 693,882	23.70%
December 31, 2019	5.22%	$ 2,928,181	$ 0	0.00%
1.00%	6.22%	$ 2,457,412	$(470,769)	(16.08)%

7. JOINT OPERATIONS

Skyline Apt. REIT's interests in co-owned investment properties are accounted for based on RELP's share of interest in the assets, liabilities, revenues and expenses of the investment properties. As of December 31, 2019, Skyline Apt. REIT is in a co-ownership agreement with Upper Montney Limited Partnership where Skyline Apt. REIT has a 50% ownership interest (2018 - 50%) in an investment property in Dawson Creek, British Columbia.

8. PROPERTY, PLANT AND EQUIPMENT

December 31, 2019	**Cost**	**Accumulated Amortization**	**Carrying Amount**
Computer equipment	$ 1,408	$ 819	$ 589
Equipment	505	278	227
Owner-occupied property by RELP - building	3,215	121	3,094
Owner-occupied property by RELP - land	503	0	503
	$ 5,631	$ 1,218	$ 4,413

December 31, 2018	**Cost**	**Accumulated Amortization**	**Carrying Amount**
Computer equipment	$ 758	$ 558	$ 200
Equipment	359	238	121
	$ 1,117	$ 796	$ 321

(in thousands of Canadian dollars, except per unit amounts)

9. OTHER ASSETS

The components of other assets are as follows:

	2019	2018
Lender holdback	$ 458	$ 441
Prepaid expenses	1,296	1,179
Deposits on investment properties	3,522	2,506
	$ 5,276	$ 4,126

10. MORTGAGES PAYABLE

The mortgages payable are secured by investment properties and letters of credit, in some cases. Mortgages bearing fixed interest with a contractual weighted average rate of 3.25% (2018 - 3.57%) are $1,476,771 (2018 - $1,164,234). Mortgages bearing variable interest rates with an average variable rate of 4.78% (2018 - 4.93%) are $20,538 (2018 - $8,270). Included in mortgages payable are second mortgages of $52,062 (2018 - $58,025), the majority of which bear fixed interest rates. Also included in mortgages payable is a mezzanine loan of $16,538 (2018 - $6,596), which bears a variable interest rate. Mortgages have maturity dates ranging between 2020 and 2029. All mortgages are denominated in Canadian dollars.

Future minimum principal payments on mortgage obligations are as follows:

2020	$ 164,726
2021	189,586
2022	227,624
2023	164,561
2024	118,310
Thereafter	632,502
	$ 1,497,309

A reconciliation of movements in mortgages payable to cash flows arising from financing activities is as follows:

	2019	2018
Mortgages payable, beginning of year	$ 1,172,504	$ 1,134,298
Proceeds from new mortgages	509,958	310,136
Repayment of existing mortgages	(181,880)	(271,292)
Transaction costs related to mortgages	(7,407)	(4,248)
Total changes from financing cash flows	320,671	34,596
Amortization of financing costs	4,134	3,610
Financing costs included in operations	45,498	41,634
Interest paid	(45,498)	(41,634)
Total liability-related changes	4,134	3,610
Mortgages payable, end of year	$ 1,497,309	$ 1,172,504

(in thousands of Canadian dollars, except per unit amounts)

11. RELATED PARTY TRANSACTIONS

Related party transactions are measured at fair value.

Skyline Incorporated is the general partner ("GP") of RELP and is entitled to distributions under the limited partnership agreement which commences once the equivalent of the total investors' equity has been effectively distributed on a property by property basis. Once triggered, any future income from operations for the specific property is shared at a ratio of 20% to the general partner and 80% to the LP. In addition, on any disposition, the general partner is entitled to 20% of the equity growth on the property net of any outstanding amounts owing to investors. A provision for the future distributions payable to Skyline Incorporated has not been recorded since the timing and amount of the distributions payable cannot be reasonably estimated. Based on the fair value of the investment properties as at December 31, 2019, a distribution would be payable if the investment properties were sold. At December 31, 2019, there were distributions payable of $2,135 (2018 - $1,013) included in due to related parties.

Distributions paid
Skyline Apt. REIT paid the following distributions to related parties:

	2019	2018
Skyline Management Inc. (limited partner)	$ 2,348	$ 2,167
Skyline Incorporated (GP) on the sale of investment properties	2,808	20,110
Skyline Incorporated (GP)	4,839	3,607
	$ 9,995	$ 25,884

Skyline Apt. REIT has an asset management agreement with Skyline Asset Management Inc., and a wealth management agreement with Skyline Wealth Management Inc. Skyline Asset Management Inc. and Skyline Wealth Management Inc. are controlled by Skyline Incorporated.

Fees payable under the asset management agreement are 2% of adjusted gross revenue. Fees payable under the wealth management agreement include wealth management fees of 0.3% of unitholders' equity, and equity raise fees ranging from 0.5% to 1% of proceeds from units issued and redeemed during the year. Equity raise fees of $642 (2018 - $438) were paid under the wealth management agreement during the year and are included in issuance costs.

Fees paid during the year are as follows:

	2019	2018
Asset management fees	$ 5,196	$ 4,815
Wealth management fees	3,680	3,163
	$ 8,876	$ 7,978

(in thousands of Canadian dollars, except per unit amounts)

11. RELATED PARTY TRANSACTIONS (continued)

Due from related parties

Amounts due from related parties are unsecured, non-interest bearing and are due on demand. The balance consists of the following:

	2019	2018
Skyline Equities Inc.	$ 0	$ 1,003
Skyline Real Estate Holdings Inc.	18	18
	$ 18	$ 1,021

Skyline Real Estate Holdings Inc. is the bare trustee for some of the income producing properties held in Skyline Apt. REIT.

Due to related parties

The balance due to Skyline Clean Energy Fund is unsecured, bears interest at 6%, with a commitment fee of 1% and has no set terms of repayment. The balance due to Skyline Incorporated is unsecured, non-interest bearing and has no set terms of repayment. The balance due to Skyline Commercial Real Estate Investment Trust ("Skyline Commercial REIT") is unsecured, bears interest at 7% and has no set terms of repayment. Skyline Clean Energy Fund and Skyline Commercial REIT are entities that are controlled by a person or persons that qualify as a related person under IAS 24. The balance consists of the following:

	2019	2018
Skyline Clean Energy Fund	$ 13,686	$ 0
Skyline Incorporated	2,135	376
Skyline Commercial REIT	5,998	0
	$ 21,819	$ 376

Subsequent to year end, substantially all of these balances were repaid.

Class B LP Units

Skyline Management Inc. ("SMI") holds 2,482,639 (2018 - 2,482,639) Class B LP units of RELP, that are exchangeable for Skyline Apt. REIT units and have a market value of $42,826 at December 31, 2019 (2018 - $39,722). SMI is required to hold 90% of the exchangeable units (or REIT upon exchange) until 2021, subject to limited exceptions. SMI is controlled by Skyline Incorporated.

(in thousands of Canadian dollars, except per unit amounts)

12. FINANCING COSTS

During the year, Skyline Apt. REIT paid the following financing costs:

	2019	2018
Mortgage interest	$ 45,498	$ 41,634
Deferred financing costs	4,134	3,610
Interest expense on other loans	410	115
Interest expense on revolving credit facility	2,081	800
Distribution paid on LP Units	2,898	4,219
Distribution paid to GP on the sale of investment properties	2,808	20,110
Distribution paid to GP	4,839	3,607
Interest on tenant deposits	174	741
	$ 62,842	$ 74,836

13. FAIR VALUE GAIN

The components of the fair value gain were as follows:

	2019	2018
Fair value gain on investment properties	$ 230,862	$ 56,662
Fair value gain on disposed properties	2,066	45,847
	$ 232,928	$ 102,509

14. FAIR VALUE MEASUREMENT

Skyline Apt. REIT's financial assets and financial liabilities are carried at amortized costs, which approximate fair value, or FVTPL as applicable. Such fair value estimates are not necessarily indicative of the amounts Skyline Apt. REIT might pay or receive in actual market transactions.

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements is as follows:

As at	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment properties	$ 0	$ 0	$ 2,928,181	$ 0	$ 0	$ 2,249,919
Liabilities						
Mortgages payable	$ 0	$ 1,500,152	$ 0	$ 0	$ 1,160,604	$ 0
LP Units	0	0	52,681	0	0	49,035
	$ 0	$ 1,500,152	$ 52,681	$ 0	$ 1,160,604	$ 49,035

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. For investment properties and liabilities measured at fair value as at December 31, 2019 and December 31, 2018, there were no transfers between Level 1, Level 2 and Level 3 assets.

14. FAIR VALUE MEASUREMENT (continued)

The fair value of the mortgages payable was higher than the recorded value by approximately $2,843 at December 31, 2019 (December 31, 2018 - fair value was $11,900 lower than cost) due to changes in the interest rates since the dates on which the individual mortgages were last contracted. The fair value of the mortgages payable has been estimated based on current market rates for mortgages with similar terms and conditions. The fair value of Skyline Apt. REIT's mortgages payable is an amount computed based on the interest rate environment prevailing at December 31, 2019 and December 31, 2018, respectively; the amount is subject to change and the future amounts will converge. There are no additional costs or penalties to Skyline Apt. REIT if the mortgages are held to maturity.

15. FINANCIAL RISK MANAGEMENT

Financial risks are risks arising from the financial instruments to which Skyline Apt. REIT is exposed during or at the end of the reporting period. Financial risk comprises market risk, credit risk, and liquidity risk. Skyline Apt. REIT considers real estate risk as a financial risk as well, even though investment property is not classified as a financial instrument.

Risk management is carried out by Management and the Board of Trustees of Skyline Apt. REIT. Management identifies and evaluates financial risks and the Board provides oversight on overall risk management, including specific areas such as interest rate risk, liquidity, and investing policies.

Key financial risk management reports are produced on a monthly basis and key indicators are reviewed by Management and the Board of Trustees of Skyline Apartment REIT.

i) <u>Market risk</u>

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Skyline Apt. REIT’s market risks arise from open positions in interest bearing assets and liabilities, to the extent that these are exposed to market fluctuations.

a. <u>Interest rate risk</u>

Skyline Apt. REIT is exposed to interest rate risk arising from its fixed and floating rate mortgages payable. Bank overdraft is at floating interest rates and is exposed to changes in interest rates. Bank loan payable is at floating interest rates and is exposed to changes in interest rates. As fixed rate debt matures and as Skyline Apt. REIT uses additional floating rate debt under revolving credit facilities, Skyline Apt. REIT will be further exposed to cash flow risk.

As part of its risk management policies, Skyline Apt. REIT uses fixed and floating rate mortgages for the majority of its borrowings to allow for better cash flow planning. Skyline Apt. REIT attempts to stagger mortgage renewals at appropriate intervals to mitigate significant interest rate shocks in a given year.

The following table illustrates the sensitivity of income and equity to a reasonably possible change in interest rates of +/- 1%.

(in thousands of Canadian dollars, except per unit amounts)

15. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2019

	Carrying Amount	Income -1%	Partners' Equity -1%	Income +1%	Partners' Equity +1%
Bank overdraft	$ 2,136	$ 21	$ 21	$ (21)	$ (21)
Revolving credit facility	71,090	711	711	(711)	(711)
Mortgages payable, maturing within one year	113,277	1,133	1,133	(1,133)	(1,133)
	$ 186,503	$ 1,865	$ 1,865	$ (1,865)	$ (1,865)

December 31, 2018

	Carrying Amount	Income -1%	Partners' Equity -1%	Income +1%	Partners' Equity +1%
Bank overdraft	$ 598	$ 6	$ 6	$ (6)	$ (6)
Revolving credit facility	24,009	240	240	(240)	(240)
Mortgages payable, maturing within one year	38,454	385	385	(385)	(385)
	$ 39,052	$ 391	$ 391	$ (391)	$ (391)

b. Price risk

Skyline Apt. REIT has no significant exposure to price risk with respect to financial instruments as it does not hold any equity securities or commodities.

c. Foreign exchange risk

Skyline Apt. REIT is not subject to foreign exchange risk. All of its financial instruments are denominated in Canadian dollars.

ii) Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Skyline Apt. REIT has no significant concentrations of credit risk. Credit risk arises from trade receivables, including rental receivables from lessees, mortgage and notes receivable.

An allowance for doubtful accounts is recognized for estimated losses resulting from tenant default on lease obligations. Skyline Apt. REIT actively reviews receivables and determines the potentially uncollectible accounts on a per-tenant basis. An accounts receivable is written down to its estimated recoverable value when there is reason to believe that the tenant will not be able to fulfil their obligations under the lease agreement. Management reviews tenant receivables on a regular basis and reduces carrying amounts through the use of allowance for doubtful accounts and the amount of any loss is recognized in the statement of income and comprehensive income.

(in thousands of Canadian dollars, except per unit amounts)

15. FINANCIAL RISK MANAGEMENT (continued)

ii) Credit risk (continued)

The movement in the allowance for doubtful accounts is reconciled as follows:

	2019	2018
Allowance for doubtful accounts beginning of year	$ 254	$ 217
Provision for impairment of trade receivables	92	207
Reversal of provision for impairment	(117)	(170)
Allowance for doubtful accounts end of year	$ 229	$ 254

Credit risk is managed by reviewing the credit quality of the tenant through credit ratings and references. The maximum exposure to credit risk at the reporting date is equal to the carrying value of each class of financial asset.

iii) Liquidity risk

Liquidity risk management entails maintaining sufficient cash and credit facilities available to close out market positions. Skyline Apt. REIT ensures flexibility in funding by keeping committed credit lines available, and raising capital from partners when needed.

Skyline Apt. REIT's liquidity position is monitored on a regular basis by Management. A summary table with obligations of financial liabilities presented below is used by key management personnel to manage liquidity risks and is derived from managerial reports at company level. The amounts disclosed in the tables below are the contractual undiscounted cash flows. Undiscounted cash flows in respect of the balances due within twelve months generally equal their carrying amounts in the statement of financial position as the impact of discounting is not significant.

The bank overdraft is secured by a general security agreement over some of the investment properties of Skyline Apt. REIT.

Under a financing agreement, RELP and Skyline Apt. REIT have a revolving credit facility of $35,000 (2018 - $35,000) available for use to finance the ongoing working capital requirements of the combined group which is maintained by Skyline Apt. REIT. At December 31, 2019 the total drawn on the operating line of credit was $21,090 (2018 - $24,009). The operating line of credit bears interest at prime plus 1.5% (2018 - prime plus 1.5%).

Under another financing agreement, RELP and Skyline Apt. REIT have a revolving credit facility of $50,000 (2018 - $nil) available for use to finance the ongoing working capital requirements of the combined group, which is maintained by Skyline Apt. REIT. At December 31, 2019, the total drawn on the revolving credit facility by Skyline Apt. REIT was $50,000 (2018 - $nil). The revolving credit facility bears interest at prime plus 1.5% or a fixed rate of 2.3% at the option of the borrower.

(in thousands of Canadian dollars, except per unit amounts)

15. FINANCIAL RISK MANAGEMENT (continued)

iii) Liquidity risk (continued)

A reconciliation of movements in revolving credit facility to cash flows arising from financing activities is as follows:

	2019	2018
Revolving credit facility, beginning of year	$ 24,009	$ 0
Net proceeds (repayments) to revolving credit facility	47,081	24,009
	71,090	24,009
Financing costs included in operations	2,081	800
Interest paid	(2,081)	(800)
Total liability-related changes	0	0
Revolving credit facility, end of year	$ 71,090	$ 24,009

Under the financing agreements, the combined group of RELP and Skyline Apt. REIT are required to maintain a debt service ratio of 1.20 or higher, an interest coverage ratio of at least 2.00 or higher and unitholder equity of at least $400,000 plus 75% of contributions received during each subsequent fiscal year. The combined group is also required to maintain a funds from operations effective pay-out ratio not exceeding 105%, a total debt to gross book value ratio not exceeding 65% and a mortgage-ability debt service coverage ratio of 1.25 or higher. At December 31, 2019, the combined group was in compliance with the financing agreements.

A reconciliation of movements in bank overdraft to cash flows arising from financing activities is as follows:

	2019	2018
Bank overdraft, beginning of year	$ 598	$ 4,730
Net proceeds (repayments) from bank overdraft	1,538	(4,132)
Bank overdraft, end of year	$ 2,136	$ 598

Skyline Apt. REIT's long term debt consists of first mortgages payable bearing interest rates ranging from 2.0% to 6.7% per annum, payable in monthly instalments of principal and interest of approximately $6,703 (2018 - 2.1% to 6.7%, instalments of $5,146), maturing from 2020 to 2029 and are secured by specific charges against specific properties.

Skyline Apt. REIT's long term debt also includes second mortgages payable bearing interest at rates ranging from 2.4% to 6.1%, payable in monthly instalments of principal and interest of approximately $298 (2018 - 2.4% to 6.1%, instalments of $291), maturing from 2020 to 2024, and are secured by specific charges against specific investment properties.

(in thousands of Canadian dollars, except per unit amounts)

15. FINANCIAL RISK MANAGEMENT (continued)

iii) Liquidity risk (continued)

Financial liabilities and their obligations are as follows:

December 31, 2019	On demand	Less than one year	One to five years	More than five years	**Total**
Mortgages payable	$ 0	$ 136,726	$ 682,091	$ 678,492	$ 1,497,309
LP units	9,855	0	42,826	0	52,681
Bank overdraft	2,136	0	0	0	2,136
Revolving credit facilities	36,264	34,826	0	0	71,090
Accounts payable and accrued liabilities	0	13,834	0	0	13,834
	$ 48,255	$ 185,386	$ 724,917	$ 678,492	$ 1,637,050

December 31, 2018	On demand	Less than one year	One to five years	More than five years	**Total**
Mortgages payable	$ 0	$ 44,694	$ 218,996	$ 908,814	$ 1,172,504
LP units	9,313	0	39,722	0	49,035
Bank overdraft	598	0	0	0	598
Revolving credit facility	24,009	0	0	0	24,009
Accounts payable and accrued liabilities	0	18,709	0	0	18,709
	$ 33,920	$ 63,403	$ 258,718	$ 908,814	$ 1,264,855

iv) Real estate risk

Skyline Apt. REIT has identified risks associated with the real estate portfolio. The greatest risk is with respect to the fair values of the portfolio due to changes in real estate market conditions, the economic climate, and overall financial health of its tenants.

Skyline Apt. REIT mitigates its exposure to any one tenant as a majority of its investment properties are multi-suite residential which results in a large number of tenants with minimal financial exposure to each. No single residential tenant accounts for 10% or more of Skyline Apt. REIT's residential rental revenue. Skyline Apt. REIT's commercial portfolio has a concentration of risk with a single tenant that represents 29% (2018 - 62%) of commercial revenue. This tenant is under lease until 2023 with three five-year renewal options.

16. MORTGAGES AND NOTES RECEIVABLE

The balance of $44 (2018 - $47) consists of a note receivable and bears interest at a fixed rate of 6% per annum. The mortgage was transferred to the partnership upon purchase of a building whereby a tenant had purchased their specific unit within the building.

(in thousands of Canadian dollars, except per unit amounts)

16. MORTGAGES AND NOTES RECEIVABLE (continued)

During 2017, Skyline Apt. REIT advanced notes receivable to two third parties in order to finance two separate projects under development in Brantford, Ontario and Port Elgin, Ontario. These loans finance the construction of two properties and give Skyline Apt. REIT the right to purchase the residential properties after they are developed by the third parties. These loans bear interest at 7.50% per annum. The project under development in Brantford, Ontario was completed in 2017 and the Port Elgin, Ontario project was completed in 2018.

A reconciliation of movements in notes receivable is as follows:

	2019	2018
Notes receivable, beginning of year	$ 47	$ 8,526
Repayments	(3)	(8,479)
Notes receivable, end of year	$ 44	$ 47

17. CAPITAL RISK MANAGEMENT

Skyline Apt. REIT's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for unitholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Skyline Apt. REIT has the ability to adjust the amount of distributions paid to partners, return capital to partners, issue additional units, refinance existing debt, or sell investment property to reduce debt.

Skyline Apt. REIT monitors capital primarily using a loan to value ratio, which is calculated as the amount of outstanding debt divided by the valuation of the investment property portfolio. As of December 31, 2019, the loan to value ratio was 51% (2018 - 52%), which is within Skyline Apt. REIT's stated policy of 70% or lower. Subsequent to December 31, 2019, Skyline Apt. REIT is in compliance with the policy.

During the year, Skyline Apt. REIT did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

18. UNITHOLDERS' EQUITY

Skyline Apt. REIT is authorized to issue an unlimited number of REIT units. The REIT units are entitled to distributions as and when declared by the Board of Trustees. On February 5, 2019, Skyline Apt. REIT increased the price per unit for newly issued units and units to be redeemed to $17.25 from $16.00. The units issued and outstanding are as follows:

	2019 Units	2018 Units
Units outstanding, beginning of year	58,002,571	55,016,860
Exchange of LP units	10,717	200,689
Units issued	3,351,643	2,832,091
Distribution reinvestment plan	1,423,651	3,195,560
Redemptions during the year	(1,309,849)	(3,242,629)
Units outstanding, end of year	61,478,733	58,002,571

(in thousands of Canadian dollars, except per unit amounts)

19. LIMITED PARTNERSHIP UNITS

At December 31, 2019 there are 2,520,139 (2018 - 2,520,139) Class B exchangeable partnership units of RELP. RELP's Class B LP units, representing an aggregate fair value of $43,472 at December 31, 2019 (2018 - $40,322), are exchangeable on a one-for-one basis into Skyline Apt. REIT units at any time at the option of the holder. Prior to such exchange, distributions will be made on these exchangeable units in an amount equivalent to the distributions which would have been made had the units been exchanged for Skyline Apt. REIT units. Class B LP units are entitled to a pro rata share of the residual net assets remaining after the preferential claims, thereon, of debt holders. RELP's Class C LP units of 179,844 (2018 - 180,714), representing an aggregate fair value of $3,102 at December 31, 2019 (2018 - $2,891), and Class D LP units of 354,009 (2018 - 363,856), representing an aggregate fair value of $6,107 at December 31, 2019 (2018 - $5,822) share the same characteristics of the Class B LP units described above.

A reconciliation of movements in Class B, C and D LP Units to cash flows arising from financing activities is as follows:

	2019	2018
Class B, C and D LP Units, beginning of year	$ 49,035	$ 47,586
Proceeds from issue of Class B, C and D LP Units	0	1,487
Redemptions of Class B, C and D LP Units	(185)	(3,204)
	(185)	(1,717)
Financing costs included in operations	2,898	4,219
Distribution interest paid	(2,898)	(4,219)
Total liability-related changes	0	0
Changes in fair value	3,831	3,166
Class B, C and D LP Units, end of year	$ 52,681	$ 49,035

20. SEGMENTED DISCLOSURE

All of Skyline Apt. REIT's assets and liabilities are in, and its revenues are derived from, multi-suite residential and commercial Canadian real estate. Skyline Apt. REIT's investment properties are, therefore, considered by Management to have similar economic characteristics. Thus, Skyline Apt. REIT has one reportable segment for disclosure purposes.

21. SUBSEQUENT EVENTS

Subsequent to year end, RELP acquired one property with an aggregate cost of $20,000. The property was financed with a mortgage of $14,521, with an interest rate of 2.85% and a maturity of 2030.

Effective February 11, 2020, the price per unit for newly issued units and units to be redeemed increased to $21.00 from $17.25.

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. This global pandemic has disrupted economic activities and has resulted in many organizations implementing system-wide closure of programming and services. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. This may impact the timing and amounts realized on the organization's cash flows and assets.

In response to the effects of COVID-19 mentioned above, on March 19, 2020 the Board of Trustees agreed to apply a monthly redemption limit of $50 for all requests received, as outlined in Skyline Apt. REIT's Declaration of Trust, in an effort to safeguard the capital of Skyline Apt. REIT, and mitigate its liquidity risk.


SKYLINE