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Management's Discussion and Analysis

Year ended December 31, 2021

BASIS OF PRESENTATION

This Management’s Discussion and Analysis (MD&A) of Sun Residential Real Estate Investment Trust (Sun, we, our or us) is dated February 8, 2022 and should be read in conjunction with our audited consolidated financial statements for the year ended and as at December 31, 2021. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. All references herein to “\$” are to United States dollars. This MD&A provides information for the year ended December 31, 2021 and is current to February 8, 2022, the date that it was approved by our board of trustees.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of securities laws, including Canadian securities legislation. We may make forward-looking statements in this MD&A, in other reports to unitholders, and in other communications. Forward-looking statements in this MD&A and elsewhere reflect our current assumptions, expectations and projections as to future results. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any those expressed or implied by the forward-looking statements. The forward-looking statements made in this MD&A relate only to events or information as of the date hereof. All forward-looking statements are based on assumptions that may prove to be incorrect. Furthermore, forward-looking statements are qualified in their entirety by the inherent risks, uncertainties and changes in circumstances surrounding future expectations which are difficult to predict and mostly beyond our control.

Except as specifically required by applicable Canadian securities law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date hereof. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. Many factors will cause actual results to differ, perhaps materially, from results in the forward-looking statements: please refer to “Risk Factors” below.

ACCOUNTING POLICIES

Our consolidated financial statements for the year ended December 31, 2021 have been prepared in accordance with IFRS. Our accounting policies are described in our consolidated financial statements for the year ended December 31, 2021, which should be read in conjunction with this MD&A. In applying these policies, in certain cases it is necessary to use estimates, for which we use information available to us at the time. We review key estimates quarterly to determine their appropriateness and any change to these estimates is applied prospectively as required by IFRS. The most significant estimates relate to the fair value of investment properties.

NON-IFRS MEASURES

In this MD&A we disclose some financial measures that are not recognized under IFRS and that, therefore, do not have standard meanings prescribed by IFRS. These measures are commonly used by entities in the real estate industry as useful metrics for measuring performance. Since they do not have any standardized meaning under IFRS, they may not be comparable to similar measures presented by other entities. These measures should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with IFRS.

FFO (funds from operations) is a measure of operating performance based upon funds generated by Sun before reinvestment or provision for other capital needs. AFFO (adjusted funds from operations) is a supplemental

measure that adjusts FFO for costs associated with capital expenditures, leasing costs, and tenant improvements. FFO and AFFO as presented are in accordance with the recommendations of the Real Property Association of Canada (REALPAC) as published in its white paper in February 2019, except as noted below.

FFO is defined as IFRS consolidated net income (or loss) adjusted for items such as unrealized changes in the estimated fair value of investment properties, the effect of changes in value of puttable instruments classified as financial liabilities, property taxes accounted for under IFRS Interpretations Committee – 21 Levies (IFRIC 21 – see comment below in discussion of net operating income), transaction costs expensed as a result of the purchase of a property being accounted for as a business combination, changes in the fair value of financial instruments that are economically effective hedges but do not qualify or were not designated for hedge accounting, foreign exchange gains or losses (as noted below) and operational revenue and expenses from right to use assets. FFO should not be considered to be an alternative to net income (loss) or cash flows provided by or used in operating activities determined in accordance with IFRS. Our method of calculating FFO is in accordance with REALPAC’s recommendations, except that FFO is also adjusted for foreign exchange gains or losses that do not result from activities related to the property, but may differ from methods used by other issuers. We consider FFO to be a key measure of operating performance.

AFFO is defined as FFO adjusted for maintenance capital expenditures incurred. AFFO should not be considered to be an alternative to net income (loss) or cash flows provided by or used in operating activities in accordance with IFRS. Our method of calculating AFFO is in accordance with REALPAC’s recommendations, except for the foreign exchange adjustment noted above, and may differ from methods used by other issuers. We consider AFFO to be a key measure of operating performance.

Net operating income (NOI) is defined as net rental income, which is total revenue from properties less direct property operating expenses, adjusted for realty taxes prepared in accordance with IFRS, except for adjustments related to IFRIC 21. (Therefore, when NOI is calculated quarterly, it includes a quarterly charge for realty taxes, notwithstanding that IFRIC 21 requires that a government levy (such as realty taxes) be recognized in accordance with the relevant legislation. The obligating event for realty taxes occurs during the fourth quarter, consequently under IFRS, the full amount of the expense is recognized at that time. This only affects quarterly reporting.) NOI should not be considered to be an alternative to net income determined in accordance with IFRS. Our method of calculating NOI may differ from methods used by other issuers. We consider NOI to be an important measure of income generated from our income producing properties and we use it to evaluate the performance of our properties. It is also a key input in determining the fair value of our properties.

In this MD&A, we also refer to several other real estate industry metrics that are non-IFRS measures:

Non-IFRS measures are as follows:

- NOI margin is defined as NOI divided by our total revenue.
- FFO per unit is defined as FFO divided by the weighted average units outstanding.
- AFFO per unit is defined as AFFO divided by the weighted average units outstanding.

Other performance measures include:

- “Gross Book Value” means the book value of our total consolidated assets.
- “Debt to Gross Book Value Ratio” is calculated by dividing our debt, which consists of mortgage payable, by Gross Book Value.

See “Reconciliation of Non-IFRS Measures” below.

OVERVIEW

Sun Residential Real Estate Investment Trust is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario and established pursuant to a declaration of trust dated January 22, 2019, as amended and restated on March 22, 2019 and November 4, 2020. The business of Sun is to acquire multi-family residential properties in the Sunbelt region of the United States.

Our business operations commenced on January 28, 2020, when we completed a financing and concurrently acquired a 51% interest in a multi-family residential property located in Tallahassee, Florida comprising 12 buildings with 288 rental units as well as various amenities for tenants.

SIGNIFICANT EVENTS AND HIGHLIGHTS

Property revenue for the current quarter was comparable to that of the previous quarters, and the property has performed well despite the Coronavirus pandemic. Occupancy has been in the range of 95% - 99% since the property was acquired, and is currently at 96% leased.

The impact of the novel coronavirus epidemic has not been material to date, although this could change if residents become unable to pay rent. At present it appears that while the effect may be expected to be pervasive, multi-family residential properties in the U.S. Sunbelt have been affected less severely than other types of real estate investment. However, the pandemic has resulted in us pausing our expansion plans as the capital markets have not been favourable for real estate investment trusts. Please refer to “Risk Factors” below.

OUTLOOK

Outlook and growth strategy

We believe that the multifamily sector in the United States Sunbelt offers attractive investment prospects. Our expansion plans have been delayed due to the disruption caused by the coronavirus pandemic to capital and real estate markets.

COVID-19 mitigation and impact

During the current coronavirus pandemic, our priority is the health and safety of our residents and team members. To minimize the spread and impact of COVID-19, various measures have been implemented at our property based on requirements from state and local governments and recommendations from the U.S. Centers for Disease Control and Prevention (CDC).

Westdale Evergreen’s property management has been working closely with tenants for rent collections, and each month during the year has ended with at approximately 99% of rent being collected. The Evergreen property management office reopened on March 1, 2021, and some pandemic-related safety protocols remain in place. Operational metrics such as occupancy rates have remained comparable to those of previous periods. Overall, the coronavirus pandemic has had limited adverse impact on our operating results in the quarter.

PERFORMANCE MEASURES**Business Metrics**

	December 31 2021	December 31 2020
Portfolio:		
Total apartment units	288	288
Total square feet	276,664	276,664
Weighted average occupancy rate	96%	95%
Rent collection - Period end	99%	99%
NOI Margin	58%	57%
Gross book value	\$ 69,689,836	\$ 56,592,930

Debt:

Debt to gross book value ratio	45.1%	55.6%
Weighted average contractual interest rate of mortgages	3.52%	3.52%
Weighted average mortgage debt term - in years	7.8	8.8

Equity:

Units outstanding	203,338,999	203,338,999
Unitholders' equity	19,461,725	14,288,207

Operating results

	Years ended December 31	
	2021	2020
Revenue	\$ 4,946,475	\$ 4,356,819
Net operating income	\$ 2,868,457	\$ 2,477,207
Funds from operations	\$ 480,998	\$ 159,322
FFO per unit	\$ 0.0024	\$ 0.0008
Adjusted funds from operations	\$ 472,318	\$ 146,358
AFFO per unit	\$ 0.0023	\$ 0.0008

Please refer to “Non-IFRS Measures” above and “Reconciliation of Non-IFRS Measures” below.

RESULTS OF OPERATIONS

Results of operations

	Years ended December 31	
	2021	2020
Investment property revenue	\$ 4,946,475	\$ 4,356,819
Property operating expenses	2,078,018	1,879,612
Net rental income	2,868,457	2,477,207
General and administrative expenses	399,325	592,143
Interest	1,122,059	1,042,131
Other expense (income)	10,340	(19,577)
Fair value (gain) loss on investment properties	(12,432,980)	586,703
Loss on foreign currency translation	350	41,147
	(10,900,906)	2,242,547
Income before income taxes	13,769,363	234,660
Deferred income taxes	1,647,950	-
Net income	\$ 12,121,413	\$ 234,660
Other comprehensive income		
Net income	12,121,413	234,660
Income (loss) on foreign currency translation	-	(162,310)
Comprehensive income	\$ 12,121,413	\$ 72,350

Balance sheet metrics	December 31, 2021	December 31, 2020
Total assets	\$ 69,689,836	\$ 56,592,930
Non-current liabilities	\$ 33,087,950	\$ 31,440,000
Unitholders' equity	\$ 19,461,725	\$ 14,288,207

Summary of quarterly results

	Three months ended 31-Dec-21	Three months ended 30-Sep-21	Three months ended 30-Jun-21	Three months ended 31-Mar-21	Three months ended 31-Dec-20	Three months ended 30-Sep-20	Three months ended 30-Jun-20	Three months ended 31-Mar-20
Investment property revenue	\$ 1,296,918	\$ 1,284,107	\$ 1,189,384	\$ 1,176,066	\$ 1,178,338	\$ 1,176,957	\$ 1,165,743	\$ 835,781
Property operating expenses	1,083,563	364,141	318,649	311,665	855,532	364,193	296,286	363,601
Net rental income	213,355	919,966	870,735	864,401	322,806	812,764	869,457	472,180
General and administrative expenses	110,358	87,323	97,279	104,365	98,838	85,449	71,683	336,173
Interest	282,821	282,820	279,746	276,672	282,820	282,820	279,746	196,745
Other expenses (income)	14,616	(1,583)	(658)	(2,035)	(889)	(2,683)	(5,183)	(10,822)
Fair value (gain) loss on investment properties	(6,617,000)	-	(5,815,980)	-	(38,322)	22,400	-	602,625
Loss (gain) on foreign currency translation	2,857	2,326	(2,507)	(2,326)	(7,972)	20,258	(112,134)	140,995
	\$ (6,206,348)	\$ 370,886	\$ (5,442,120)	\$ 376,676	\$ 334,475	\$ 408,244	\$ 234,112	\$ 1,265,716
Income (loss) before income taxes								
Income taxes	6,419,703	549,080	6,312,855	487,725	(11,669)	404,520	635,345	(793,536)
Deferred income taxes	797,490	66,808	769,722	13,930	-	-	-	-
Income (loss)	\$ 5,622,213	\$ 482,272	\$ 5,543,133	\$ 473,795	\$ (11,669)	\$ 404,520	\$ 635,345	\$ (793,536)
Other comprehensive income (loss):								
Net income (loss)	\$ 5,622,213	\$ 482,272	\$ 5,543,133	\$ 473,795	\$ (11,669)	\$ 404,520	\$ 635,345	\$ (793,536)
Gain (loss) on foreign currency translation	-	-	-	-	-	-	-	(162,310)
Comprehensive income (loss)	\$ 5,622,213	\$ 482,272	\$ 5,543,133	\$ 473,795	\$ (11,669)	\$ 404,520	\$ 635,345	\$ (955,846)

Summary of quarterly results, continued

	Three months ended 31-Dec-21	Three months ended 30-Sep-21	Three months ended 30-Jun-21	Three months ended 31-Mar-21	Three months ended 31-Dec-20	Three months ended 30-Sep-20	Three months ended 30-Jun-20	Three months ended 31-Mar-20
Net income attributable to:								
Unitholders of the Trust	\$ 2,413,921	\$ 170,071	\$ 2,403,718	\$ 185,808	\$ (50,041)	\$ 155,814	\$ 346,396	\$ (633,213)
Non-controlling interest	3,208,292	312,201	3,139,415	287,987	38,372	248,520	288,949	(160,323)
Net income (loss)	\$ 5,622,213	\$ 482,272	\$ 5,543,133	\$ 473,795	\$ (11,669)	\$ 404,334	\$ 635,345	\$ (793,536)
Net income (loss) attributable to unitholders	\$ 2,413,921	\$ 170,071	\$ 2,403,718	\$ 185,808	\$ (50,041)	\$ 155,814	\$ 346,396	\$ (633,213)
Fair value loss (gain) on investment property	(6,617,000)	-	(5,815,980)	-	(38,322)	22,400	-	602,625
Realty taxes not accounted under IFRIC21	572,400	(190,800)	(190,800)	(190,800)	392,400	(195,624)	(196,776)	-
Non-controlling interest	2,961,854	93,492	2,943,322	93,492	(173,498)	84,880	96,420	(295,286)
Deferred income taxes	797,490	66,808	769,722	13,930	-	-	-	-
Loss (gain) on foreign currency translation	2,857	2,326	(2,507)	(2,326)	(7,972)	20,258	(112,134)	140,995
FFO	\$ 131,522	\$ 141,897	\$ 107,475	\$ 100,104	\$ 122,567	\$ 87,728	\$ 133,906	\$ (184,879)
Capital expenditures*	-	-	(17,020)	-	(25,418)	-	-	-
Non-controlling interest	-	-	8,340	-	12,455	-	-	-
AFFO	\$ 131,522	\$ 141,897	\$ 98,795	\$ 100,104	\$ 109,604	\$ 87,728	\$ 133,906	\$ (184,879)
FFO per unit	\$ 0.0006	\$ 0.0007	\$ 0.0005	\$ 0.0005	\$ 0.0006	\$ 0.0004	\$ 0.0007	\$ (0.0012)
AFFO per unit	\$ 0.0006	\$ 0.0007	\$ 0.0005	\$ 0.0005	\$ 0.0005	\$ 0.0004	\$ 0.0007	\$ (0.0012)

*Capital expenditures for 2020 have been restated to reflect the new policy of recording actual capital expenditures instead of a capital expenditure reserve.

Please refer to "Non-IFRS Measures" above and "Reconciliation of Non-IFRS Measures" below.

Property revenue for the current quarter was comparable to that of the previous quarters. The property has performed well despite the Coronavirus pandemic. Occupancy has been in the range of 95% - 99% since the property was acquired until December 31, 2021. As of February 8, 2022, the property is 93% leased, as a result of tenant move-outs.

Investment property revenue

Investment property revenue includes all rental income earned from the property, including residential tenant rental income and all other miscellaneous income paid by the tenants under the terms of their existing leases. It also includes services to our tenants under rental contracts including maintenance services, utilities, parking, leisure amenities, laundry, pet fees, waste disposal and other services at the property.

Investment property revenue has increased 10.1% in the fourth quarter compared with the comparable period in the previous year. Investment property revenue has increased 13.5% for the year ended December 31, 2021 compared with the previous year. This reflects the current strength in the rental market, as well as the property being acquired on January 28, 2020 so that only slightly over 11 months' results are included in the prior year. During the quarter, lease renewals were at a weighted average rent increase of 10.3%. New lease rates are averaging 7% higher than in the third quarter.

Net rental income has increased 15.8% for the year ended December 31, 2021 compared with the previous year. Property operating expenses were 42.0% of investment property revenue for the year ended December 31, 2021 compared with 43.1% of investment property revenue in the previous year.

Property operating expenses

	Years ended December 31	
	2021	2020
Property tax	\$ 738,143	\$ 660,244
Property employee wages and benefits	287,460	295,145
Utility costs	162,675	157,620
Property insurance	173,094	140,518
Repairs and maintenance costs	221,386	201,337
Management fee	148,465	129,063
Building services	212,796	171,497
Other property-based costs	133,999	124,188
	<u>\$ 2,078,018</u>	<u>\$ 1,879,612</u>

Property operating expenses are comprised mainly of building common area and maintenance expenses, payroll, insurance and other costs associated with the management and maintenance of our investment property. Repair and maintenance costs include additional spending on supplies due to the coronavirus pandemic, but aggregate property expenses are approximately in accordance with plan, and almost unchanged from the prior year comparative period when adjusted for the acquisition of the property on January 28, 2020.

General and administrative expenses

	Years ended December 31	
	2021	2020
Salaries and consulting	\$ 182,713	\$ 305,579
Audit and accounting	100,090	91,237
Legal	3,528	78,280
Filing and listing fees	34,358	35,251
Insurance	34,565	29,999
Office administration	44,071	51,797
	<u>\$ 399,325</u>	<u>\$ 592,143</u>

For the year ended December 31, 2021, general and administrative expenses were significantly less than in the prior year due to costs incurred in the first quarter of 2020 in connection with the acquisition of the property and our initial operations as a public entity. Those comprised expenses in establishing ongoing operations, including professional fees, regulatory and investor relations expenses, and other costs related to the listing of our trust units on the TSXV. Office administration costs include rent, travel, communications, and bank charges. Filing and listing fees include other public company costs such as news releases, transfer agent costs, and similar expenses.

Interest

Interest costs consist of interest expense on the mortgage loan obtained to acquire the Westdale Evergreen property. (See "Liquidity and capital resources", below.)

Other income

Other income consists of interest income from cash held on deposit at a major Canadian chartered bank. (See "Cash and cash equivalents," below.)

Fair value adjustment to investment property

We use the fair value model to account for investment property. Investment property includes land and buildings held to earn rental income and capital appreciation. Investment property is initially recognized at its purchase price, including directly attributable acquisition costs. Subsequent to initial recognition, investment property is carried at fair value, with changes in the fair value of the investment property recognized in net income in the period in which they arise.

As of December 31, 2021, the fair value of the property was calculated using a capitalization rate of 4.625% as determined by an external valuator. This represents a reduction in the capitalization rate of 0.375% from the rate at the previous year-end as a result of the strong real estate market in Florida and in the Tallahassee area. The valuator also determined that stabilized net operating income had increased 14.4% from the prior year reflecting the property’s excellent performance.

RECONCILIATION OF NON-IFRS MEASURES

We believe that NOI, FFO and AFFO are accepted and meaningful measures of financial performance in the real estate industry. These figures which should not be construed as an alternative to net income or cash flows provided by or used in operating activities determined in accordance with IFRS. We consider NOI, FFO and AFFO to be key measurements of operating performance. We also intend to use AFFO in assessing our capacity to make distributions in the future. See “Non-IFRS Measures” above.

Set out below is a reconciliation of FFO, FFO per unit, AFFO and AFFO per unit for the periods shown:

	Years ended December 31	
	2021	2020
Net income (loss) attributable to unitholders	\$ 5,173,518	\$ (181,044)
<i>Adjustments to arrive at FFO</i>		
Fair value adjustment to		
investment properties	(12,432,980)	586,703
Non-controlling interest	6,092,160	(287,484)
Deferred income taxes	1,647,950	-
Loss on foreign currency translation	350	41,147
Funds from operations (FFO)	480,998	159,322
<i>Adjustments to arrive at AFFO</i>		
Capital expenditures	(17,020)	(25,418)
Non-controlling interest	8,340	12,455
Adjusted funds from operations (AFFO)	\$ 472,318	\$ 146,359
Weighted average number of units	203,338,999	192,395,958
FFO per unit	0.0024	0.0008
AFFO per unit	0.0023	0.0008

Set out below is a calculation of net operating income (NOI) and NOI margin for the periods shown:

	Year ended December 31	
	2021	2020
Total revenue from property	\$ 4,946,475	\$ 4,356,819
Property operating expenses		
Operating costs	1,177,200	1,061,748
Realty taxes	738,143	660,244
Utilities	162,675	157,620
Property operating expenses	2,078,018	1,879,612
Net operating income	\$ 2,868,457	\$ 2,477,207
NOI margin	58.0%	56.9%

INVESTMENT PROPERTY PORTFOLIO

Our sole operating asset was acquired on January 28, 2020, with the completion of our qualifying transaction. The property is a 288 multi-family residential real estate property located in Tallahassee, Florida. Investment property includes land, building and building improvements, as well as furniture and equipment. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value.

The estimated fair value of the investment property was determined using the direct capitalization income method. The stabilized future estimated cash flows are divided by an overall capitalization rate. For the year ended December 31, 2021, we obtained an independent investment property valuation performed by an external valuator, dated December 31, 2021. For the year ended December 31, 2020, we obtained an independent investment property valuation performed by an external valuator, dated December 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Our capital structure is set out in the table below.

	December 31, 2021	December 31, 2020
Indebtedness		
Mortgage	\$ 31,440,000	\$ 31,440,000
	31,440,000	31,440,000
Unitholders' equity	19,461,725	14,288,207
Total capitalization	\$ 50,901,725	\$ 45,728,207

The mortgage is interest-only for a ten-year term, maturing November 6, 2029, bearing interest at 3.52% per annum.

We expect to be able to meet all of our current ongoing obligations and expect to finance future acquisitions by issuing equity, assuming mortgages on properties acquired and using our cash flow. At December 31, 2021, our current assets of \$4,739,836 exceed our current liabilities of \$212,218 by \$4,527,618. In addition, further liquidity is provided by cash flow from operations.

We are not in default or arrears on any of our debt obligations.

Cash and cash equivalents

	December 31, 2021	December 31, 2020
Demand deposits	\$ 1,379,955	\$ 1,088,518
Short-term deposits	3,092,692	2,807,085
Total cash and cash equivalents	\$ 4,472,647	\$ 3,895,603

Short-term deposits are in an interest-bearing savings account that requires 30 days’ notice to remove funds. There are no significant working capital requirements that currently exist and there are no pending items that may affect liquidity.

CONTRACTUAL COMMITMENTS

At December 31, 2021, contractual commitments were as follows:

	Carrying value	Contractual cash flow	Up to 1 year	1 - 2 years	3 - 5 years	Thereafter
Mortgage payable	\$ 31,440,000	\$ 40,330,393	\$ 1,122,059	\$ 2,247,191	\$ 2,244,117	\$ 34,717,026
Accounts payable and accrued liabilities	212,218	212,218	212,218	-	-	-
Total contractual liabilities	\$ 31,652,218	\$ 40,542,611	\$ 1,334,277	\$ 2,247,191	\$ 2,244,117	\$ 34,717,026

DISCONTINUED OPERATIONS AND DISTRIBUTIONS

For the years ended December 31, 2021 and 2020, we reported no discontinued operations and declared or paid no distributions to unitholders.

UNITHOLDERS’ EQUITY

Sun is authorized to issue an unlimited number of trust units and special voting units. Each trust unit entitles the holder to a single vote at any meeting of unitholders and entitles the holder to receive pro-rata share of all distributions and in the event of termination or winding-up, in the net assets of Sun remaining after satisfaction of all liabilities. Each special voting unit has no economic entitlement in Sun or in the distributions or assets of Sun. Special voting units may only be issued in connection with or in relation to securities exchangeable into trust units for the purpose of providing voting rights with respect to Sun to the holders of such securities. No special voting units are issued and outstanding.

Sun is an open-ended mutual fund trust; therefore, unitholders are entitled to redeem their trust units at prices determined in our declaration of trust. As a result, under IFRS, trust units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, they are presented as equity instruments as they meet the puttable instrument exemption under IAS 32, Financial Instruments. For the purposes of presenting earnings on a per unit basis, the trust units are not treated as equity instruments.

As at December 31, 2021 and February 8, 2022, the date of this MD&A, the total number of outstanding trust units was 203,338,999. The weighted average trust units outstanding was 203,338,999 for the year ended December 31, 2021.

CASH FLOWS AND USE OF FUNDS

		Years ended December 31	
		2021	2020
Cash used in operating activities	\$	1,228,746	156,234
Cash used in investing activities		(17,020)	(10,737,998)
Cash provided by (used in) financing activities		(646,800)	11,321,333
Change in cash and cash equivalents during the year	\$	564,926	\$ 739,569

OFF BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of business and are recorded at the exchange amounts, the consideration established and agreed to by the related parties, and are measured at fair value. Key management includes our trustees and officers. During the year ended December 31, 2021, no remuneration was paid to trustees (year ended December 31, 2020 – \$nil). During the year ended December 31, 2021, \$114,380 was paid to officers (year ended December 31, 2020 – \$256,134).

Westdale Asset Management LLC (WAM), a Texas limited partnership, has a property management agreement with Westdale Evergreen, for the property management of our property. Under IFRS, WAM is considered to be a related party. During the year ended December 31, 2021, we incurred \$148,465 for property management services provided by WAM (year ended December 31, 2020 – \$129,063).

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of consolidated financial statements requires us to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. The most subjective of these estimates and assumptions relate to:

- Fair value of investment properties – The determination of the fair value of investment properties is considered a significant estimate. The stabilized net operating income and capitalization rate are the most significant assumptions used in determining fair value. The uncertainty related to the COVID-19 pandemic has affected the availability of reliable market data. Therefore, a high degree of estimation has been used by management in assessing the stabilized net operating income (SNOI) and capitalization rate used to determine the fair value of the investment property. Consequently, there is a high level of uncertainty regarding the valuation, as the fair value may be subject to significant change as uncertainties over the impact of the pandemic continue. Such changes may be material.
- Property classification – Significant judgement is required in determining whether a property should be classified as investment property (IAS 40) rather than property, plant and equipment (IAS 16). It has been determined that the ancillary services provided to the occupants of the property are considered to be insignificant to the arrangement as a whole, and accordingly our property has been classified as investment property.
- Determination of control – Significant judgement is required in determining whether Sun has control over Westdale Evergreen. Sun owns 51% of Westdale Evergreen indirectly through our 100% owned subsidiary, SunResREIT US Inc. In determining that Sun has control over Westdale Evergreen, factors

considered include the ability to set budgets, make management decisions, and other contractual provisions that enable us to exercise control.

- **Income taxes** – The determination of income taxes requires interpretation of laws and regulations involving multiple jurisdictions. In some cases, the ultimate tax determination is uncertain, and deferred income tax balances are recorded using enacted or substantively enacted future income tax rates. Changes in enacted income tax rates are not within the control of management. However, any changes in income tax rates may result in actual income tax amounts that differ significantly from estimates recorded. Judgement is also required in determining whether deferred income tax assets should be recognized on the consolidated balance sheets. Deferred income tax assets are recognized to the extent that Sun believes it is probable that the assets can be recovered when future taxable profit will be available against which the temporary differences can be utilized.

For a summary of significant accounting policies, please refer to Note 3 of our audited consolidated financial statements for the year ended and as at December 31, 2021.

RISK FACTORS

The following are factors pertaining to our business that investors should carefully consider when deciding whether to invest in our trust units. This list is not complete because additional risks and uncertainties that are not known to us, or that we currently deem immaterial, may also impair our operations and prospects. When any risks actually transpire, our financial condition, liquidity and results of operations will likely be materially adversely affected and our ability to implement our growth plans could also be adversely affected. **In addition to the risks described herein, additional information may be found in the section entitled “Risk Factors” on pages 46-55 of our filing statement dated January 24, 2020, which is available on SEDAR at www.sedar.com.**

The current world-wide coronavirus pandemic is having a material adverse effect on the United States economy, including the real estate industry in the Sunbelt region. We cannot predict the eventual impact of the pandemic, but at present it appears likely that it will continue to have adverse consequences on markets, the valuation of real estate assets, and our ability to secure future financing. The pandemic also adds uncertainty as to the collection of rents from our tenants and the ability to conduct property management of our properties. In addition, the pandemic has slowed down our acquisition program which may result in a deferral of achieving the intended structure to optimize Canadian and United States taxes, and may result in taxes being exigible that might otherwise have been avoided or deferred.

Risks associated with our business and industry

Operating History

Sun has a short history of earnings or operations: we have not paid any distributions and we may not declare or pay any distributions in the immediate or foreseeable future. Our success will depend entirely on the expertise, judgement and discretion of our board and management, as well as the other risks enumerated below.

General Business Risks

We are subject to general business risks and to risks inherent in the real estate industry. The underlying value of our assets as well as future investments or property acquisitions, and our income and ability to generate stable positive returns from operating activities, depend on our ability to generate income in excess of expenses. Income and gains deriving from our assets now and in the future as well as property acquisitions may be adversely affected by changes in national or local economic conditions, changes in interest rates and in the availability, cost and terms of any mortgage or other financing, the ongoing need for capital improvements, changes in real estate assessed values and taxes payable on such values and other operating expenses, changes in governmental laws, regulations, rules and fiscal policies, changes in zoning laws, the impact of present or future environmental legislation and compliance with environmental laws and acts of God, including natural disasters and pandemics (which may result

in uninsured losses). Any of the foregoing events would be likely to impair the value of our assets and our future prospects.

The current world-wide coronavirus pandemic is having a material adverse effect on the United States economy, including the real estate industry in the Sunbelt region. We cannot predict the eventual impact of the pandemic, but at present it appears likely that it will continue to have adverse consequences on markets, the valuation of real estate assets, and our ability to secure future financing. The pandemic also adds uncertainty as to the collection of rents from our tenants and the ability to conduct property management of our properties. In addition, the pandemic has slowed down our acquisition program which may result in a deferral of achieving the intended structure to optimize Canadian and United States taxes, and may result in taxes being exigible that might otherwise have been avoided or deferred.

When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases, real property values may decrease, and the number of potential buyers decreases. Similarly, an inability to obtain the necessary financing will make it more difficult to both acquire and to sell real property as well as to finance our investment and proposed acquisition activities. In addition, under eminent domain laws governments can expropriate real property for less compensation than an owner believes the property is worth. These factors are all beyond our control.

Real Property Ownership

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions (such as the availability, terms and cost of mortgage financings and other types of financing), local real estate markets and conditions (such as an oversupply of office and other commercial properties or a reduction in demand for real estate in the area), the attractiveness of the properties to residents or tenants, supply and demand for space, competition from other available space and various other factors.

The performance of the economy in areas in which properties are located affects occupancy, market rental rates, property sale prices and expenses. These factors consequently can have an impact on revenues generated from properties and their underlying values. The novel coronavirus pandemic may be expected to have adverse effect on the collectability of rents, property sale prices, and expenses. The value of real property and any improvements thereto may also depend on the credit and financial stability of our tenants. Sun's financial performance would be adversely affected if tenants at our portfolio properties were to become unable to meet their obligations under their leases. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and costs incurred in protecting Sun's investment may be incurred. 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 favorable to Sun than the existing lease.

Other factors may further adversely affect revenues from, and the value of, our portfolio properties. These factors include local conditions in the areas in which properties are located, the attractiveness of the properties to tenants or future purchasers, competition from neighboring or other properties and our ability to provide adequate facilities, maintenance, services and amenities. Operating costs, including real estate taxes, insurance and maintenance costs, and mortgage payments, do not, in general, decline when circumstances cause a reduction in income from a property. We could sustain a loss as a result of foreclosure on a property, if a property is mortgaged to secure payment of indebtedness and Sun was unable to meet its payment obligations. In addition, applicable laws, including tax laws, interest rate levels and the availability of financing also affect revenues from properties and real estate values.

Lease Renewals, Rental Increases, Lease Termination Rights and Other Lease Matters

Expiries of leases for our portfolio properties will occur from time to time. No assurance can be provided that Sun will be able to renew any or all of the leases upon the expiration of such leases or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact Sun's financial condition and results of operations.

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of

leased premises, there can be no assurance that such tenants will continue to occupy such premises. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on Sun and could adversely impact Sun’s financial condition and results of operations and decrease the amount of cash available for distribution. While the impact to date has been minimal, the current COVID-19 pandemic may result in a deterioration in our ability to collect rental payments from tenants.

Non-controlling interest

The property in which we have invested has a significant 49.0% non-controlling interest, owned by Westdale Galesi Partners, LLC, and we may use similar equity structures in the future. Investments with large non-controlling interests may involve risks not present when a third party is not involved, including the possibility that the non-controlling interest might become bankrupt or fail to fund their share of required capital contributions. Non-controlling interests may also have business interests or goals that are inconsistent with our business interests or goals and may be in a position to take actions contrary to our policies or objectives.

Investment Concentration

Our principal business is investing in quality multi-family residential real estate primarily in the Sunbelt region of the United States. Any adverse economic or real estate developments in the areas in which our real estate investments reside, or in the future in any of the other markets in which we operate, could adversely affect our revenues, which could impair our ability to satisfy debt service obligations and generate stable positive cash flow from operations.

All of our real property assets are currently located in Tallahassee, Florida. Accordingly, we are currently susceptible to any adverse developments in Tallahassee, Florida, including climate, COVID-related and seasonal-related risks and other factors. These factors may differ from those affecting the real estate markets in other regions in the United States. If real estate conditions in Tallahassee, Florida decline relative to real estate conditions in other regions in the United States, our cash flows, operating results and financial condition may be more adversely affected than those of companies that have a more geographically diversified portfolios of properties.

Fixed Costs and Capital Expenditures

Certain significant expenditures, including property taxes, maintenance costs, mortgage and leasehold payments, insurance costs and related charges, must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve a property’s condition. Maintaining a rental property in accordance with market standards can entail significant costs, which we may not be able to recover from our tenants. Numerous factors, including the age of the building structure, the material and substances used at the time of construction or currently unknown building code violations, could result in substantial unexpected and unbudgeted costs for refurbishment or modernization.

If the actual costs of maintaining or upgrading our portfolio properties exceed our reasonable estimates, or if construction defects are discovered during the course of maintenance or upgrading which are not covered by insurance or other contractual warranties, or if we are not permitted to raise the rents due to other legal constraints, Sun may incur additional and unexpected costs. If competing properties of a similar type are built in the area where our portfolio properties are located, or similar properties located in the vicinity of our properties are substantially refurbished, the net operating income derived from, and the value of, our properties could be reduced.

Changes in Government Regulation

We are subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental and energy efficiency matters, taxes and other matters. It is possible that future changes in applicable United States or Canadian federal, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). Any changes in the laws to which we are subject could materially affect the rights and title

to our portfolio properties. It is not possible to predict whether there will be any further changes in the regulatory regime(s) to which we will be subject or the effect of any such change on our investments.

Liquidity

Real estate investments are illiquid, which limits our ability to modify our portfolio promptly in response to changing economic or investment conditions.

Uninsured Losses

We carry appropriate general liability, fire, and other insurance on our portfolio properties with policy specifications, limits and deductibles as are customary. There are, however, certain types of risks, generally of a catastrophic nature, such as wars, pandemics or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or under-insured loss occur, we will lose our investment in, and anticipated profits and cash flows from, the investments or properties, and we may continue to be obliged to repay any recourse indebtedness related to such investments or properties.

Competition

We compete with various owners, operators and developers in the United States real estate industry, including other properties located close to our properties. If our competitors build new properties that compete with our present or future properties, we may lose potential tenants and may be pressured to discount rental rates below those that would otherwise be charged in order to retain tenants. As a result, our rental revenues could decrease, which would impair our ability to satisfy any debt service obligations and to generate stable positive cash flow from its operations. In addition, increased competition for tenants may require us to make capital improvements to facilities that would not have otherwise be made. Unbudgeted capital improvements that we undertake may reduce cash available for distribution and general expenses.

Acquisition and Integration of Additional Properties

We intend to acquire additional properties in the future and our future growth will depend upon our ability to successfully acquire new properties on favorable terms. Future acquisition opportunities may not be available on terms that meet our investment criteria or we may be unsuccessful in capitalizing on such opportunities. Our ability to capitalize on acquisition opportunities will depend upon the availability of future financing, which might not be available on satisfactory terms, or at all.

Newly developed and recently acquired properties may not perform as expected and may have characteristics or deficiencies unknown at the time of acquisition. We cannot guarantee that we will be able to successfully integrate acquired properties without operating disruptions or unanticipated costs. As we acquire additional properties, we will be subject to risks associated with integrating and managing new properties, including tenant lease-up and retention and mortgage default. In addition, acquisitions may cause disruptions in our operations and divert management’s attention away from day-to-day operations. Furthermore, our profitability and cash flows may suffer because of acquisition-related costs or amortization costs for acquired intangible assets. Our failure to successfully integrate any future properties would have an adverse effect on operating costs and the ability to generate stable positive cash flow from our operations.

Potential Undisclosed Liabilities Associated with Acquisitions

We expect to acquire properties that may be subject to existing liabilities, some of which may be unknown at the time of the acquisition or which we may fail to uncover in our due diligence. Unknown liabilities might include liabilities for claims by tenants, vendors or other persons dealing with the vendor or predecessor entities (including claims that have not been asserted or threatened as of the acquisition date), tax liabilities, accrued but unpaid liabilities incurred in the ordinary course of business and cleanup and remediation of undisclosed environmental conditions. Notwithstanding any possible rights to seek reimbursement against an insurer or another third party for certain of these liabilities, we may suffer significant losses due to undisclosed liabilities.

Litigation

We may become subject to disputes with tenants or other commercial parties. We may be required to devote significant resources, including management time and attention, to the successful resolution of such disputes (including through litigation, settlement or otherwise), which would detract from our ability to focus on our business. Any such resolution could involve the payment of damages or expenses, which may be significant. In addition, any such resolution could involve our agreement to settlement terms that restrict the operation of our business.

Climate Change and Environmental

Climate change continues to attract the focus of governments and the public as a threat to be considered, given the emission of greenhouse gases and other activities that may negatively affect the planet. We face the risk that our properties will be subject to government initiatives aimed at countering climate change, such as reducing greenhouse gas emissions, which may impose constraints on our operations or result in incurring costs in order to comply. If we were to fail to comply with new regulations or adapt to the new requirements, the result may be fines, additional costs, or adverse impacts on our reputation or our operating performance.

We are subject to various United States federal, state and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal of hazardous substances and repair of hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws with respect to its current portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with its current portfolio. However, we cannot guarantee that any material environmental conditions do not or will not otherwise exist with respect to our current portfolio, or real property that we may own in the future.

Public Health Crises

Our business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond our control, including current or future waves of the COVID-19 outbreak. Reactions to the spread or worsening of an outbreak may lead to, among other things, significant restrictions on travel, business closures, quarantines, social distancing and other containment measures and a general reduction in consumer activity. While these effects may be temporary, the duration of any business disruptions and related financial impact cannot be reasonably estimated, and may be instituted, terminated and re-instituted from time to time as an outbreak worsens or waves of an outbreak occur from time to time. Such public health crises can also result in volatility and disruptions in the supply and demand for various products and services, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect interest rates, credit ratings, credit risk and inflation. The risks to Sun of such public health crises also include risks to our property manager and third-party service providers’ employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak.

Cyber Risk

We and our property manager collect and store confidential and personal information. Unauthorized access to the computer systems of Sun or our property manager could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in the operations of Sun or our property manager. In addition, despite implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt our business and make its applications unavailable. If a person penetrates our network security or otherwise misappropriates sensitive data, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on our business, results of operations and financial condition.

ADDITIONAL INFORMATION

Additional information about Sun is available on our website at www.sunresreit.com, and regulatory filings are also available on SEDAR at www.sedar.com. You can contact us by telephone at 416-214-2228 (which will *only* be monitored *after* the pandemic has passed) or by email at info@sunresreit.com.