Real Estate Potential. Realized.

MORGUARD CORPORATION

JUNE 30, 2019

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	June 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Real estate properties	5	**$9,702,723**	$9,645,596
Hotel properties	6	**659,894**	666,078
Equity-accounted and other fund investments	7	**280,935**	281,464
Other assets	8	**292,749**	285,103
		10,936,301	10,878,241
Current assets			
Mortgages and loans receivable		**1,631**	1,686
Amounts receivable		**83,386**	76,879
Prepaid expenses and other		**41,003**	15,551
Cash		**190,106**	110,401
		316,126	204,517
Real estate property held for sale	5	**15,945**	—
		$11,268,372	$11,082,758
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable	9	**$3,434,178**	$3,573,185
Unsecured debentures	10	**821,839**	597,697
Convertible debentures	11	**192,459**	225,936
Lease liabilities	13	**167,396**	9,754
Morguard Residential REIT Units	12	**448,656**	417,481
Deferred income tax liabilities		**732,207**	717,943
		5,796,735	5,541,996
Current liabilities			
Mortgages payable	9	**764,477**	789,516
Convertible debentures	11	**—**	2,063
Loans payable	21	**38,170**	60,309
Accounts payable and accrued liabilities	14	**265,468**	234,916
Bank indebtedness	15	**146,894**	225,160
		1,215,009	1,311,964
Total liabilities		**7,011,744**	6,853,960
EQUITY			
Shareholders' equity		**3,476,253**	3,431,366
Non-controlling interest		**780,375**	797,432
Total equity		**4,256,628**	4,228,798
		$11,268,372	$11,082,758

Contingencies 25

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF INCOME

In thousands of Canadian dollars, except per common share amounts

	Note	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenue from real estate properties	17	**$216,093**	$207,061	**$435,933**	$410,900
Revenue from hotel properties	17	**65,199**	61,997	**118,826**	115,849
Land rent arbitration settlement	25	**—**	17,250	**—**	17,250
Property operating expenses					
Property operating costs		**(46,252)**	(45,178)	**(92,096)**	(89,377)
Utilities		**(14,004)**	(13,379)	**(29,767)**	(28,552)
Realty taxes		**(22,734)**	(22,913)	**(85,506)**	(78,717)
Hotel operating expenses		**(48,157)**	(44,603)	**(92,671)**	(87,373)
Net operating income		**150,145**	160,235	**254,719**	259,980
OTHER REVENUE					
Management and advisory fees	17	**12,430**	14,401	**24,081**	28,838
Interest and other income		**6,007**	2,880	**10,043**	4,320
Sales of product and land		**1,657**	1,386	**3,148**	2,636
		20,094	18,667	**37,272**	35,794
EXPENSES					
Interest	18	**56,884**	51,700	**115,931**	101,751
Property management and corporate		**21,530**	22,841	**49,062**	45,269
Cost of sales of product and land		**1,139**	921	**2,267**	1,773
Amortization of hotel properties	6	**6,788**	6,106	**13,560**	12,618
Amortization of capital assets and other		**2,062**	1,578	**4,079**	3,202
Provision for impairment		**—**	6,661	**—**	6,661
		88,403	89,807	**184,899**	171,274
OTHER INCOME (EXPENSE)					
Fair value gain (loss), net	19	**9,314**	34,529	**30,270**	130,536
Equity income (loss) from investments	7	**(4,658)**	(394)	**(3,212)**	195
Other income (expenses)	20	**(1,146)**	3,482	**(961)**	5,681
		3,510	37,617	**26,097**	136,412
Income before income taxes		**85,346**	126,712	**133,189**	260,912
Provision for income taxes	22				
Current		**3,605**	7,992	**4,743**	9,674
Deferred		**12,399**	22,826	**20,145**	30,319
		16,004	30,818	**24,888**	39,993
Net income for the period		**$69,342**	$95,894	**$108,301**	$220,919
Net income (loss) attributable to:					
Common shareholders		**$69,722**	$75,604	**$103,208**	$192,212
Non-controlling interest		**(380)**	20,290	**5,093**	28,707
		$69,342	$95,894	**$108,301**	$220,919
Net income per common share attributable to:					
Common shareholders - basic and diluted	23	**$6.17**	$6.62	**$9.14**	$16.72

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Net income for the period	**$69,342**	$95,894	**$108,301**	$220,919
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to net income:				
Unrealized foreign currency translation gain (loss)	**(30,520)**	30,322	**(59,992)**	65,242
Gain on interest rate swap agreement	**—**	72	**—**	161
	(30,520)	30,394	**(59,992)**	65,403
Deferred income tax recovery (provision)	**100**	(226)	**192**	(511)
	(30,420)	30,168	**(59,800)**	64,892
Items that will not be reclassified subsequently to net income:				
Actuarial gain (loss) on defined benefit pension plans	**(5,355)**	(8,167)	**5,321**	(4,294)
Deferred income tax recovery (provision)	**1,197**	2,167	**(1,633)**	1,139
	(4,158)	(6,000)	**3,688**	(3,155)
Other comprehensive income (loss)	**(34,578)**	24,168	**(56,112)**	61,737
Total comprehensive income for the period	**$34,764**	$120,062	**$52,189**	$282,656
Total comprehensive income attributable to:				
Common shareholders	**$36,943**	$97,802	**$50,743**	$249,492
Non-controlling interest	**(2,179)**	22,260	**1,446**	33,164
	$34,764	$120,062	**$52,189**	$282,656

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Retained Earnings	Accumulated Other Comprehensive Income	Share Capital	Total Shareholders' Equity	Non-controlling Interest	Total
Shareholders' equity, January 1, 2018		$2,785,739	$189,982	$106,952	$3,082,673	$851,696	$3,934,369
Changes during the period:							
Net income		192,212	—	—	192,212	28,707	220,919
Other comprehensive income		—	57,280	—	57,280	4,457	61,737
Dividends		(3,438)	—	—	(3,438)	—	(3,438)
Distributions		—	—	—	—	(14,585)	(14,585)
Issuance of common shares		—	—	79	79	—	79
Repurchase of common shares		(68,252)	—	(3,624)	(71,876)	—	(71,876)
Adjustment on adoption of IFRS 9		17,315	(17,315)	—	—	—	—
Change in ownership of Morguard REIT		12,433	—	—	12,433	(28,207)	(15,774)
Change in ownership of Temple Hotels Inc.		312	—	—	312	(2,480)	(2,168)
Shareholders' equity, June 30, 2018		$2,936,321	$229,947	$103,407	$3,269,675	$839,588	$4,109,263
Changes during the period:							
Net income (loss)		127,639	—	—	127,639	(4,500)	123,139
Other comprehensive income		—	43,407	—	43,407	3,180	46,587
Dividends		(3,404)	—	—	(3,404)	—	(3,404)
Distributions		—	—	—	—	(15,193)	(15,193)
Issuance of common shares		—	—	60	60	—	60
Repurchase of common shares		(19,468)	—	(1,031)	(20,499)	—	(20,499)
Change in ownership of Morguard REIT		14,488	—	—	14,488	(25,643)	(11,155)
Shareholders' equity, December 31, 2018		$3,055,576	$273,354	$102,436	$3,431,366	$797,432	$4,228,798
Changes during the period:							
Net income		**103,208**	**—**	**—**	**103,208**	**5,093**	**108,301**
Other comprehensive loss		**—**	**(52,465)**	**—**	**(52,465)**	**(3,647)**	**(56,112)**
Dividends	16(a)	**(3,386)**	**—**	**—**	**(3,386)**	**—**	**(3,386)**
Distributions		**—**	**—**	**—**	**—**	**(13,882)**	**(13,882)**
Issuance of common shares	16(a)	**—**	**—**	**46**	**46**	**—**	**46**
Repurchase of common shares	16(a)	**(1,993)**	**—**	**(100)**	**(2,093)**	**—**	**(2,093)**
Contribution from non-controlling interest	16(b)	**—**	**—**	**—**	**—**	**15,930**	**15,930**
Change in ownership of Temple Hotels Inc.	16(b)	**(2,498)**	**—**	**—**	**(2,498)**	**2,498**	**—**
Change in ownership of Morguard REIT	16(b)	**2,053**	**—**	**—**	**2,053**	**(7,552)**	**(5,499)**
Increase in subsidiary ownership interest	16(b)	**22**	**—**	**—**	**22**	**(15,497)**	**(15,475)**
Shareholders' equity, June 30, 2019		**$3,152,982**	**$220,889**	**$102,382**	**$3,476,253**	**$780,375**	**$4,256,628**

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

		Three months ended June 30		Six months ended June 30	
	Note	2019	2018	2019	2018
OPERATING ACTIVITIES					
Net income for the period		**$69,342**	$95,894	**$108,301**	$220,919
Add (deduct) items not affecting cash	24(a)	**3,502**	(12,493)	**24,064**	(73,806)
Distributions from equity-accounted investments	7	**846**	913	**1,705**	1,920
Land held for residential development and sale		**—**	(46)	**—**	(102)
Additions to development property - inventory		**—**	(1,646)	**—**	(2,100)
Additions to tenant incentives and leasing commissions	5	**(1,605)**	(2,356)	**(2,511)**	(3,654)
Net change in operating assets and liabilities	24(b)	**974**	(20,805)	**(21,468)**	(18,173)
Cash provided by operating activities		**73,059**	59,461	**110,091**	125,004
INVESTING ACTIVITIES					
Additions to real estate properties and tenant improvements	5	**(16,234)**	(125,278)	**(27,778)**	(238,848)
Additions to hotel properties	6	**(5,865)**	(4,352)	**(11,722)**	(10,582)
Additions to capital and intangible assets		**(449)**	(1,776)	**(588)**	(2,669)
Proceeds from sale of real estate properties, net	5	**1,666**	2,015	**38,716**	2,015
Proceeds from the sale of hotel properties, net	6	**—**	—	**1,849**	—
Investment in properties under development	5	**(9,187)**	(30,153)	**(16,459)**	(49,832)
Investment in equity-accounted and other fund investments, net	7	**(6,574)**	(1,984)	**(8,814)**	(3,887)
Investment in marketable securities		**—**	(7,578)	**—**	(14,763)
Increase in mortgages and loans receivable		**—**	(40,381)	**—**	(40,381)
Decrease in mortgages and loans receivable		**—**	9,580	**—**	21,430
Cash used in investing activities		**(36,643)**	(199,907)	**(24,796)**	(337,517)
FINANCING ACTIVITIES					
Proceeds from new mortgages		**—**	252,990	**11,253**	255,050
Financing costs on new mortgages		**(69)**	(1,377)	**(306)**	(1,404)
Repayment of mortgages					
Repayments on maturity		**—**	(138,844)	**(16,253)**	(139,120)
Repayments due to mortgage extinguishments		**(2,500)**	—	**(20,831)**	—
Principal instalment repayments		**(27,095)**	(27,171)	**(54,713)**	(54,639)
Principal payment of lease liabilities		**(528)**	—	**(1,018)**	—
Proceeds from bank indebtedness		**157,166**	73,736	**206,648**	397,853
Repayment of bank indebtedness		**(65,465)**	(219,287)	**(284,914)**	(342,632)
Proceeds from issuance of unsecured debentures, net of costs	10	**—**	198,805	**223,575**	198,805
Proceeds from issuance of convertible debentures, net of costs	11	**—**	—	**—**	77,125
Redemption of convertible debentures	11	**(39,636)**	(33,819)	**(39,636)**	(88,796)
Proceeds from construction financing		**—**	383	**—**	811
Proceeds from (repayment of) loans payable, net		**4,049**	(1,627)	**(18,732)**	—
Dividends paid		**(1,672)**	(1,674)	**(3,340)**	(3,359)
Distributions to non-controlling interest		**(6,786)**	(7,226)	**(11,572)**	(12,233)
Contribution from non-controlling interest	16(b)	**15,930**	—	**15,930**	—
Common shares repurchased for cancellation	16(a)	**(779)**	(2,737)	**(2,093)**	(71,876)
Investment in Morguard REIT	16(b)	**(4,008)**	—	**(4,008)**	(15,774)
Investment in Temple Hotels Inc.	16(b)	**—**	(451)	**—**	(2,168)
Increase in subsidiary ownership interest	16(b)	**(8,014)**	—	**(8,014)**	—
Decrease (increase) in restricted cash		**(2,460)**	(1,886)	**2,615**	(3,047)
Cash provided by (used in) financing activities		**18,133**	89,815	**(5,409)**	194,596
Net increase (decrease) in cash during the period		**54,549**	(50,631)	**79,886**	(17,917)
Net effect of foreign currency translation on cash balance		**(3,400)**	817	**(181)**	(2,491)
Cash, beginning of period		**138,957**	163,856	**110,401**	134,450
Cash, end of period		**$190,106**	$114,042	**$190,106**	$114,042

See accompanying notes to the condensed consolidated financial statements.

NOTES

For the three and six months ended June 30, 2019 and 2018
In thousands of Canadian dollars, except per common share and Unit amounts and unless otherwise noted

NOTE 1

NATURE AND DESCRIPTION OF COMPANY

Morguard Corporation (the "Company" or "Morguard") is a real estate investment and management corporation formed under the laws of Canada. Morguard's principal activities include property ownership, development and investment advisory services. Property ownership encompasses interests in multi-suite residential, commercial and hotel properties. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol "MRC." The Company owns a diverse portfolio of properties in Canada and the United States.The Company's head office is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

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

These condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies as described in Note 3, and should be read in conjunction with the most recent annual audited consolidated financial statements.

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on August 7, 2019.

Foreign Exchange

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

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at June 30	**$0.7641**	$0.7594
- As at December 31	**—**	0.7330
- Average for the three months ended June 30	**0.7476**	0.7745
- Average for the six months ended June 30	**0.7499**	0.7824
United States dollar to Canadian dollar exchange rates:		
- As at June 30	**1.3087**	1.3168
- As at December 31	**—**	1.3642
- Average for the three months ended June 30	**1.3377**	1.2911
- Average for the six months ended June 30	**1.3336**	1.2781

NOTE 3

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted the standard on January 1, 2019, using a modified retrospective approach. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

The Company reviewed all lease contracts in which it is a lessee, and has noted that there was a material impact in relation to land leases and office leases and, as such, the impact is noted below; the remainder of leases are considered immaterial.

Leases previously classified as finance leases
The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The adoption of IFRS 16 on January 1, 2019, resulted in the initial recognition of land and office right-of-use assets included in real estate properties ($153,610), hotel properties ($2,280) and other assets ($5,724) and their corresponding lease liabilities of $161,614 having a weighted average borrowing rate of 5.80%.

The lease liabilities as at January 1, 2019, can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	$433,146
Weighted average incremental borrowing rate as at January 1, 2019	5.80%
Discounted operating lease commitments as at January 1, 2019	$167,020
Less:	
Commitments relating to short-term leases and low-value assets	(5,406)
Add:	
Commitments relating to leases previously classified as finance leases	9,754
Lease liabilities as at January 1, 2019	$171,368

Summary of new accounting policies that have been applied from the date of initial application
At the commencement date of a lease, the Company will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Certain right-of-use assets related to land leases meet the definition of investment property under IAS 40, *Investment Property*; therefore, the fair value model is applied to those assets. Interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset, is recognized separately.

Right-of-use assets not meeting the definition of an investment property are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liability recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The Company measures lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company applies the recognition exemptions for leases of low-value assets and short-term leases.

Amendments to IAS 19, *Employee Benefits (2011)* (“IAS 19”)
The amendments in *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* are:

– If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
– In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019.

The Company adopted the amendments on January 1, 2019. The amendments to IAS 19 did not have a material impact on the Company’s consolidated financial statements.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”)
IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, *Income Taxes* (“IAS 12”) and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. IFRIC 23 specifically addresses the following:

– Whether an entity considers uncertain tax treatments collectively;
– The assumptions an entity makes about the examination of tax treatments by taxation authorities;
– How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
– How an entity considers the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The Company adopted the interpretation on January 1, 2019. IFRIC 23 did not have a material impact on the Company’s consolidated financial statements.

NOTE 4

SUBSIDIARIES WITH NON-CONTROLLING INTEREST

Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT" or "MRG")

As at June 30, 2019, and December 31, 2018, the Company owned a 46.9% effective interest in Morguard Residential REIT through its ownership of 6,675,166 Units and 17,223,090 Class B LP Units. The Company continues to consolidate its investment in Morguard Residential REIT on the basis of *de facto* control in accordance with IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). Refer to the Company's most recent annual audited consolidated financial statements for the factors that continue to support the conclusion that the Company has *de facto* control of Morguard Residential REIT.

During the three months ended June 30, 2019, Morguard Residential REIT recorded distributions of $5,728, or $0.1698 per Unit (2018 - $5,561, or $0.165 per Unit), of which $1,133 was paid to the Company (2018 - $1,101) and $4,595 was paid to the remaining Unitholders (2018 - $4,460). In addition, during the three months ended June 30, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $2,925 (2018 - $2,842).

During the six months ended June 30, 2019, Morguard Residential REIT recorded distributions of $11,455, or $0.3396 per Unit (2018 - $11,121 or $0.33 per Unit), of which $2,266 was paid to the Company (2018 - $2,202) and $9,189 was paid to the remaining Unitholders (2018 - $8,919). In addition, during the six months ended June 30, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $5,849 (2018 - $5,684).

Morguard Real Estate Investment Trust ("Morguard REIT" or "MRT")

As at June 30, 2019, the Company owned 35,295,089 Units (December 31, 2018 - 34,957,041 Units) of Morguard REIT, which represents a 58.1% (December 31, 2018 - 57.6%) ownership interest.

During the three months ended June 30, 2019, Morguard REIT recorded distributions of $14,569, or $0.24 per Unit (2018 - $14,564, or $0.24 per Unit), of which $8,416 was paid to the Company (2018 - $8,160) and $6,153 was paid to the remaining Unitholders (2018 - $6,404).

During the six months ended June 30, 2019, Morguard REIT recorded distributions of $29,136, or $0.48 per Unit (2018 - $29,131, or $0.48 per Unit), of which $16,806 was paid to the Company (2018 - $16,320) and $12,330 was paid to the remaining Unitholders (2018 - $12,811).

Temple Hotels Inc. ("Temple")

As at June 30, 2019, the Company owned 54,492,911 common shares (December 31, 2018 - 14,685,907 common shares) of Temple, which represents a 72.6% (December 31, 2018 - 58.7%) ownership interest.

The following summarizes the results of Morguard REIT, Morguard Residential REIT and Temple before any intercompany eliminations and the corresponding non-controlling interest in the equity of Morguard REIT, Morguard Residential REIT and Temple. The Units issued by Morguard Residential REIT that are not held by the Company are presented as equity on Morguard Residential REIT's balance sheet, but are classified as a liability on the Company's consolidated balance sheets (Note 12).

As at	June 30, 2019			December 31, 2018		
	MRT	**MRG**	**Temple**	MRT	MRG	Temple
Non-current assets	**$2,920,279**	**$2,904,340**	**$473,787**	$2,938,915	$2,973,694	$484,730
Current assets	**61,727**	**48,437**	**28,622**	38,153	37,775	26,345
Total assets	**$2,982,006**	**$2,952,777**	**$502,409**	$2,977,068	$3,011,469	$511,075
Non-current liabilities	**$1,083,704**	**$1,639,975**	**$151,775**	$1,096,488	$1,699,959	$178,507
Current liabilities	**350,896**	**200,503**	**241,376**	319,607	183,649	296,536
Total liabilities	**$1,434,600**	**$1,840,478**	**$393,151**	$1,416,095	$1,883,608	$475,043
Equity	**$1,547,406**	**$1,112,299**	**$109,258**	$1,560,973	$1,127,861	$36,032
Non-controlling interest	**$649,829**	**$590,686**	**$29,948**	$662,904	$598,793	$14,691

The following summarizes the results of the operations and cash flows for the following periods as presented in Morguard REIT's, Morguard Residential REIT's and Temple's financial statements before any intercompany eliminations and the corresponding non-controlling interest in their net income (loss):

For the three months ended June 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	**$67,008**	**$60,960**	**$40,598**	$68,029	$59,973	$43,094
Expenses	**(45,577)**	**(48,595)**	**(41,994)**	(44,649)	(51,048)	(47,349)
Fair value gain (loss) on real estate properties, net	**(24,602)**	**30,752**	**—**	22,060	34,358	—
Fair value loss on Class B LP Units	**—**	**(1,205)**	**—**	—	(23,596)	—
Net income (loss) for the period	**($3,171)**	**$41,912**	**($1,396)**	$45,440	$19,687	($4,255)
Non-controlling interest	**($1,249)**	**$22,258**	**($369)**	$19,992	$10,461	($1,977)

For the three months ended June 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Cash provided by operating activities	**$20,407**	**$17,840**	**$2,371**	$18,995	$25,337	$1,647
Cash used in investing activities	**(9,041)**	**(6,268)**	**(1,638)**	(21,580)	(20,672)	(1,796)
Cash provided by (used in) financing activities	**(7,447)**	**(9,718)**	**(3,751)**	63	(509)	(35,899)
Net increase (decrease) in cash during the period	**$3,919**	**$1,854**	**($3,018)**	($2,522)	$4,156	($36,048)

For the six months ended June 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	**$137,462**	**$123,218**	**$75,129**	$137,274	$118,067	$80,305
Expenses	**(91,804)**	**(114,292)**	**(83,311)**	(88,182)	(123,802)	(89,882)
Fair value gain (loss) on real estate properties, net	**(30,282)**	**58,585**	**—**	16,065	105,828	—
Fair value loss on Class B LP Units	**—**	**(21,873)**	**—**	—	—	—
Net income (loss) for the period	**$15,376**	**$45,638**	**($8,182)**	$65,157	$100,093	($9,577)
Non-controlling interest	**$6,615**	**$24,236**	**($3,171)**	$28,667	$53,125	($4,269)

For the six months ended June 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Cash provided by operating activities	**$33,771**	**$26,244**	**$656**	$44,291	$29,280	$3,274
Cash provided by (used in) investing activities	**(17,112)**	**25,496**	**(519)**	(31,959)	(24,880)	(5,080)
Cash provided by (used in) financing activities	**(12,624)**	**(44,079)**	**82**	(11,631)	(7,080)	2,631
Net increase (decrease) in cash during the period	**$4,035**	**$7,661**	**$219**	$701	($2,680)	$825

NOTE 5
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at	June 30, 2019	December 31, 2018
Income producing properties	**$9,592,112**	$9,511,302
Properties under development	**48,193**	56,717
Land held for development	**78,363**	77,577
	$9,718,668	$9,645,596
Real estate properties	**$9,702,723**	$9,645,596
Real estate properties held for sale	**15,945**	—
Total	**$9,718,668**	$9,645,596

Real estate properties held for sale are assets that the Company intends to sell rather than hold on a long-term basis and meet the criteria established in IFRS 5 for separate classification. As at June 30, 2019, the Company's real estate properties held for sale is comprised of a 50% interest in an industrial property located in Québec.

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

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2018	**$9,511,302**	**$56,717**	**$77,577**	**$9,645,596**
Additions:				
Capital expenditures	**20,868**	**—**	**—**	**20,868**
Development expenditures	**—**	**16,394**	**65**	**16,459**
Tenant improvements, incentives and leasing commissions	**9,421**	**—**	**—**	**9,421**
Transfers	**24,131**	**(24,131)**	**—**	**—**
Dispositions	**(63,899)**	**—**	**—**	**(63,899)**
Adoption of IFRS 16 (Note 3)	**153,610**	**—**	**—**	**153,610**
Fair value gain (loss), net	**62,478**	**(57)**	**1,437**	**63,858**
Foreign currency translation	**(117,553)**	**(730)**	**(716)**	**(118,999)**
Other	**(8,246)**	**—**	**—**	**(8,246)**
Balance as at June 30, 2019	**$9,592,112**	**$48,193**	**$78,363**	**$9,718,668**
Real estate property held for sale (Note 29)				**(15,945)**
Real estate properties				**$9,702,723**

Transactions Completed During the Six Months Ended June 30, 2019

Acquisitions

On May 22, 2019, the Company acquired partial interests in three properties controlled by the Company located in Mississauga, Ontario, for gross proceeds of $15,628, including closing costs, and the Company assumed the partial interest of the mortgages secured by the properties amounting to $7,614.

Dispositions

On February 1, 2019, the Company sold a property located in Shreveport, Louisiana, comprising 194 suites, for gross proceeds of $13,510 (US$10,317), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $6,980 (US$5,330).

On March 19, 2019, the Company sold a property located in Lafayette, Louisiana, comprising 192 suites, for gross proceeds of $15,062 (US$11,332), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $9,417 (US$7,085).

On March 19, 2019, the Company sold a property located in New Iberia, Louisiana, comprising 148 suites, for gross proceeds of $8,208 (US$6,175), including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of $5,934 (US$4,464).

On March 27, 2019, the Company sold a property located in Gretna, Louisiana, comprising 261 suites, for gross proceeds of $22,601 (US$16,849), including closing costs, and repaid the mortgage secured by the property in the amount of $11,331 (US$8,447).

On April 30, 2019, the Company sold a property located in Harahan, Louisiana, comprising 48 suites, for gross proceeds of $4,428 (US$3,298), including closing cost, and the purchaser assumed the mortgage secured by the property in the amount of $2,852 (US$2,125).

On June 21, 2019, the Company sold a property located in Victoriaville, Québec, for net proceeds of $90.

Reconciliation of the carrying amounts for real estate properties for the year ended December 31, 2018, is set out below:

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2017	$8,563,284	$29,729	$62,638	$8,655,651
Additions:				
Acquisitions	340,670	14,866	—	355,536
Capital expenditures	77,817	—	—	77,817
Development expenditures	—	57,671	1,794	59,465
Tenant improvements, incentives and leasing commissions	32,724	—	—	32,724
Transfers	46,385	(46,385)	5,483	5,483
Dispositions	(9,718)	—	—	(9,718)
Fair value gain (loss), net	232,883	(155)	6,245	238,973
Foreign currency translation	226,088	991	1,417	228,496
Other	1,169	—	—	1,169
Balance as at December 31, 2018	$9,511,302	$56,717	$77,577	$9,645,596

Capitalization Rates

As at June 30, 2019, and December 31, 2018, the Company had its portfolio internally appraised. In addition, the Company's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

The Company determined the fair value of each income producing property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable consolidated balance sheet dates, less future cash outflow pertaining to the respective leases. The Company's multi-suite residential properties are appraised using the direct capitalization of income method. The retail, office and industrial properties are appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization of income method and a direct comparison approach. The discounted cash flow analysis is primarily based on discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows.

Using the direct capitalization approach, the multi-suite residential, retail, office and industrial properties were valued using capitalization rates in the range of 3.5% to 8.8% (December 31, 2018 - 3.5% to 12.0%), resulting in an overall weighted average capitalization rate of 5.5% (December 31, 2018 - 5.3%).

The stabilized capitalization rates by asset type are set out in the following table:

	June 30, 2019					December 31, 2018				
As at	**Occupancy Rates**		**Capitalization Rates**			Occupancy Rates		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	**98.0%**	**92.0%**	**6.8%**	**3.5%**	**4.5%**	98.0%	90.0%	7.8%	3.5%	4.5%
Retail	**100.0%**	**85.0%**	**8.8%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**7.8%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**7.0%**	**5.0%**	**5.7%**	100.0%	95.0%	7.5%	5.0%	5.8%

The key valuation metrics used in the discounted cash flow method for the retail, office and industrial properties are set out in the following table:

As at	June 30, 2019			December 31, 2018		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.5%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**9.0%**	**5.3%**	**6.0%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.4%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**7.5%**	**6.0%**	**6.5%**	7.3%	6.0%	6.5%
Terminal cap rate	**7.0%**	**5.0%**	**5.8%**	6.8%	5.0%	5.8%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rates were to increase or decrease by 25 basis points (assuming no change in stabilized net operating income), the value of the income producing properties as at June 30, 2019, would decrease by $411,419 and increase by $453,137, respectively.

The sensitivity of the fair values of the Company's income producing properties as at June 30, 2019, and December 31, 2018, is set out in the table below:

As at	June 30, 2019		December 31, 2018	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($229,784)**	**$256,366**	($241,337)	$270,194
Retail	**(90,580)**	**97,848**	(94,615)	102,416
Office	**(84,646)**	**91,929**	(84,780)	92,160
Industrial	**(6,409)**	**6,994**	(6,266)	6,826
	($411,419)	**$453,137**	($426,998)	$471,596

NOTE 6
HOTEL PROPERTIES

Hotel properties consist of the following:

As at June 30, 2019	Cost	Accumulated Impairment Provision	Accumulated Amortization	Net Book Value
Land	**$97,111**	**($2,407)**	**$—**	**$94,704**
Buildings	**594,143**	**(46,382)**	**(40,569)**	**507,192**
Furniture, fixtures, equipment and other	**101,833**	**(5,469)**	**(39,933)**	**56,431**
Right-of-use asset - land lease	**1,596**	**—**	**(29)**	**1,567**
	$794,683	**($54,258)**	**($80,531)**	**$659,894**

As at December 31, 2018	Cost	Accumulated Impairment Provision	Accumulated Amortization	Net Book Value
Land	$97,111	($2,407)	$—	$94,704
Buildings	590,882	(46,382)	(34,423)	510,077
Furniture, fixtures, equipment and other	100,419	(5,469)	(33,653)	61,297
	$788,412	($54,258)	($68,076)	$666,078

Transactions in hotel properties for the six months ended June 30, 2019, are summarized as follows:

As at June 30, 2019	Opening Net Book Value	Adoption of IFRS 16 (Note 3)	Additions	Disposition	Amortization	Closing Net Book Value
Land	**$94,704**	**$—**	**$—**	**$—**	**$—**	**$94,704**
Buildings	**510,077**	**—**	**8,750**	**(4,982)**	**(6,653)**	**507,192**
Furniture, fixtures, equipment and other	**61,297**	**—**	**2,972**	**(960)**	**(6,878)**	**56,431**
Right-of-use asset - land lease	**—**	**2,280**	**—**	**(684)**	**(29)**	**1,567**
	$666,078	**$2,280**	**$11,722**	**($6,626)**	**($13,560)**	**$659,894**

Transactions in hotel properties for the year ended December 31, 2018, are summarized as follows:

As at December 31, 2018	Opening Net Book Value	Additions	Impairment Provision	Transfer	Amortization	Closing Net Book Value
Land	$89,577	$—	$—	$5,127	$—	$94,704
Buildings	492,368	8,082	(26,899)	49,487	(12,961)	510,077
Furniture, fixtures, equipment and other	59,816	8,947	(2,769)	7,684	(12,381)	61,297
	$641,761	$17,029	($29,668)	$62,298	($25,342)	$666,078
Hotel property under development	27,265	35,033	—	(62,298)	—	—
	$669,026	$52,062	($29,668)	$—	($25,342)	$666,078

On March 11, 2019, Temple sold a 30% undivided interest in the Acclaim Hotel for gross proceeds of $6,450 resulting in net cash proceeds of $1,849 after deducting the assumption of the first mortgage loan of $4,601. On disposition, the recoverable amount exceeded the carrying value of the property, resulting in a gain of $508 (Note 20). The 30% interest in the property had a net book value of $6,626 ($5,942 when excluding the right-of-use asset which has an offsetting lease liability).

NOTE 7
EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

(a) Equity-accounted and Other Real Estate Fund Investments Consist of the Following:

As at	June 30, 2019	December 31, 2018
Joint ventures	**$49,605**	$52,803
Associates	**127,345**	124,677
Equity-accounted investments	**176,950**	177,480
Other real estate fund investments	**103,985**	103,984
Equity-accounted and other fund investments	**$280,935**	$281,464

The following are the Company's significant equity-accounted investments as at June 30, 2019, and December 31, 2018:

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$22,667**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**3,041**	7,031
Greypoint Capital L.P.(1)	Toronto, ON	Joint Venture	Other	**26.8%**	36.4%	**8,127**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**11,029**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,741**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**61,298**	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	**49.0%**	49.0%	**46,882**	53,476
MIL Industrial Fund II LP(2)	Various	Associate	Industrial	**18.8%**	18.8%	**19,165**	18,555
						$176,950	$177,480

(1) Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.
(2) The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

Equity-accounted investments

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

As at	June 30, 2019	December 31, 2018
Balance, beginning of period	**$177,480**	$187,365
Additions	**8,814**	7,786
Share of net loss	**(3,212)**	(22,654)
Distributions received	**(1,705)**	(4,472)
Foreign exchange gain (loss)	**(4,427)**	9,455
Balance, end of period	**$176,950**	$177,480

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

As at	June 30, 2019			December 31, 2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Non-current assets	**$195,054**	**$759,126**	**$954,180**	$206,391	$778,155	$984,546
Current assets	**33,169**	**14,179**	**47,348**	29,438	9,756	39,194
Total assets	**$228,223**	**$773,305**	**$1,001,528**	$235,829	$787,911	$1,023,740
Non-current liabilities	**$114,338**	**$329,904**	**$444,242**	$116,410	$343,393	$459,803
Current liabilities	**7,909**	**112,589**	**120,498**	8,720	116,734	125,454
Total liabilities	**$122,247**	**$442,493**	**$564,740**	$125,130	$460,127	$585,257
Net assets	**$105,976**	**$330,812**	**$436,788**	$110,699	$327,784	$438,483
Equity-accounted investments	**$49,605**	**$127,345**	**$176,950**	$52,803	$124,677	$177,480

For the three months ended June 30	2019			2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$8,893**	**$9,649**	**$18,542**	$8,853	$8,806	$17,659
Expenses	**(5,961)**	**(8,885)**	**(14,846)**	(5,852)	(7,517)	(13,369)
Fair value gain (loss) on real estate properties, net	**(12,110)**	**(1,129)**	**(13,239)**	(2,908)	1,178	(1,730)
Net income (loss) for the period	**($9,178)**	**($365)**	**($9,543)**	$93	$2,467	$2,560
Income (loss) in equity-accounted investments	**($4,644)**	**($14)**	**($4,658)**	($12)	($382)	($394)

For the six months ended June 30	2019			2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$16,894**	**$19,420**	**$36,314**	$17,714	$17,542	$35,256
Expenses	**(11,641)**	**(18,438)**	**(30,079)**	(11,764)	(13,683)	(25,447)
Fair value gain (loss) on real estate properties, net	**(13,106)**	**(317)**	**(13,423)**	(2,796)	(1,680)	(4,476)
Net income (loss) for the period	**($7,853)**	**$665**	**($7,188)**	$3,154	$2,179	$5,333
Income (loss) in equity-accounted investments	**($4,054)**	**$842**	**($3,212)**	$1,325	($1,130)	$195

(b) Income Recognized from Other Fund Investments:

Other Real Estate Fund Investments

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Distribution income	**$717**	$738	**$1,468**	$1,398
Fair value gain (loss) for the period (Note 19)	**(705)**	88	**4,330**	1,254
Income from other real estate fund investments	**$12**	$826	**$5,798**	$2,652

The Company's two fund investments hold multi-suite residential, retail and office investment properties located in the U.S. The funds are classified and measured at fair value through profit or loss ("FVTPL"). Gains or losses arise from the change in the fair value of the underlying real estate properties held by the funds (Level 3) and from foreign exchange currency translation. Distributions received from these funds are recorded in other income (expense) on the consolidated statements of income.

NOTE 8
OTHER ASSETS

Other assets consist of the following:

As at	June 30, 2019	December 31, 2018
Accrued pension benefit asset	**$79,183**	$73,981
Goodwill	**24,488**	24,488
Capital assets, net	**11,451**	11,729
Right-of-use asset - office lease (Note 3)	**5,355**	—
Intangible assets, net	**36,877**	39,749
Inventory	**3,109**	3,199
Inventory - development properties	**444**	444
Finance lease receivable	**56,257**	55,941
Investment in marketable securities	**41,591**	38,606
Restricted cash	**33,193**	36,117
Other	**801**	849
	$292,749	$285,103

Finance Lease Receivable

In 2018, Morguard completed the construction of an ancillary services office building as part of the Etobicoke General Hospital's expansion plans. The Company entered into a 41-year ground lease agreement for a nominal consideration for the construction and operation of the development project, which is to be returned to the landlord at the end of the 41-year term. The landlord has the right to buy out the ground lease in year 20 at the fair market value of Morguard's interest in the development as defined by the agreement. Contemporaneously, the same landlord entered into a sublease agreement to rent the office building from the Company over the 41-year term.

NOTE 9
MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	June 30, 2019	December 31, 2018
Mortgages payable	**$4,205,687**	$4,369,811
Mark-to-market adjustments, net	**14,596**	17,455
Deferred financing costs	**(21,628)**	(24,565)
	$4,198,655	$4,362,701
Current	**$764,477**	$789,516
Non-current	**3,434,178**	3,573,185
	$4,198,655	$4,362,701
Range of interest rates	**2.25 - 8.95%**	2.25 - 8.95%
Weighted average contractual interest rate	**3.89%**	3.87%
Estimated fair value of mortgages payable	**$4,328,655**	$4,428,532

The aggregate principal repayments and balances maturing of the mortgages payable as at June 30, 2019, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of year)	$51,277	$636,529	$687,806	4.49%
2020	99,233	164,293	263,526	4.76%
2021	94,122	391,688	485,810	4.37%
2022	87,541	382,989	470,530	3.66%
2023	66,541	529,539	596,080	3.60%
Thereafter	216,080	1,485,855	1,701,935	3.64%
	$614,794	$3,590,893	$4,205,687	3.89%

The Company's first mortgages are registered against specific real estate assets. As at June 30, 2019, mortgages payable mature between 2019 and 2058 and have a weighted average term to maturity of 4.8 years (December 31, 2018 - 5.2 years). Approximately 93.5% of the Company's mortgages have fixed interest rates.

Approximately 92% of the Company's real estate and hotel properties, and related rental revenue have been pledged as collateral for the mortgages payable.

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at June 30, 2019, Temple was not in compliance with seven (December 31, 2018 - seven) debt service covenants affecting seven (December 31, 2018 - seven) mortgage loans amounting to $102,904 (December 31, 2018 - $104,525). Subsequent to June 30, 2019, the Company received a waiver in regard to one mortgage loan with an aggregate amount of $14,497. None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $33,623 scheduled to retire after June 30, 2020.

NOTE 10

UNSECURED DEBENTURES

The Company's senior unsecured debentures ("Unsecured Debentures") consist of the following:

As at	Maturity Date	Coupon Interest Rate	June 30, 2019	December 31, 2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Unamortized financing costs			**(3,161)**	(2,303)
			$821,839	$597,697

On November 18, 2016, the Company issued $200,000 (net proceeds including issuance costs - $199,198) of Series B senior unsecured debentures due on November 18, 2020. Interest on the Series B senior unsecured debentures is payable semi-annually, not in advance, on May 18 and November 18 of each year. The Company has the option to redeem the Series B senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.785%.

On September 15, 2017, the Company issued $200,000 (net proceeds including issuance costs - $198,800) of Series C senior unsecured debentures due on September 15, 2022. Interest on the Series C senior unsecured debentures is payable semi-annually, not in advance, on March 15 and September 15 of each year. The Company has the option to redeem the Series C senior unsecured debentures at a redemption price equal to the greater of the

Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.635%.

On May 14, 2018, the Company issued $200,000 (net proceeds including issuance costs - $198,805) of Series D senior unsecured debentures due on May 14, 2021. Interest on the Series D senior unsecured debentures is payable semi-annually, not in advance, on May 14 and November 14 of each year. The Company has the option to redeem the Series D senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.50%.

On January 25, 2019, the Company issued $225,000 (net proceeds including issuance costs - $223,575) of Series E senior unsecured debentures due on January 25, 2024. Interest on the Series E senior unsecured debentures is payable semi-annually, not in advance, on January 25 and July 25 of each year commencing on July 25, 2019. Paros Enterprises Limited, a related party, acquired $12,500 aggregate principal amount of the Series E senior unsecured debentures. The Company has the option to redeem the Series E senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.70%.

For the three and six months ended June 30, 2019, interest on the Unsecured Debentures of $8,843 (2018 - $6,594) and $16,863 (2018 - $12,074), respectively, are included in interest expense (Note 18).

NOTE 11
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	June 30, 2019	December 31, 2018
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**$111,154**	$110,166
Morguard Residential REIT[(1)]	March 31, 2023	$20.20	4.50%	$85,500	$5,000	**81,305**	79,769
Temple - Series E[(2)]		—	—	—	—	**—**	38,064
						$192,459	$227,999
Current						**$—**	$2,063
Non-current						**192,459**	225,936
						$192,459	$227,999

(1) As at June 30, 2019, the liability includes the fair value of the conversion option of $3,695 (December 31, 2018 - $2,469).
(2) Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

Morguard REIT

On December 30, 2016, Morguard REIT issued $175,000 principal amount of 4.50% convertible unsecured subordinated debentures, and incurred issue costs of $5,137 for net proceeds of $169,863. Interest is payable semi-annually, not in advance, on June 30 and December 31 of each year. The convertible debentures, with the exception of $3,242, the value assigned to the holder's conversion option, have been recorded as debt on the consolidated balance sheets.

Morguard Residential REIT

On March 15, 2013, Morguard Residential REIT issued $60,000 principal amount of 4.65% convertible unsecured subordinated debentures. On February 23, 2018, $23 of the debentures were converted into 1,483 Units, and on February 26, 2018, the remaining $59,977 ($54,977 excluding principal owned by the Company) of the debentures were redeemed in advance of their March 30, 2018 maturity date.

On February 13, 2018, Morguard Residential REIT issued $75,000 principal amount of 4.50% convertible unsecured subordinated debentures maturing on March 31, 2023. On February 21, 2018, an additional principal amount of $10,500 was issued pursuant to the exercise of the over-allotment option. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year. The underwriter's commission attributable to the debentures in the amount of $3,375 have been capitalized and are being amortized over the term to maturity. Morguard owns $5,000 aggregate principal amount of the 4.50% convertible unsecured subordinated debentures.

Temple Hotels Inc.

On April 8, 2019, Temple fully repaid the remaining 7.25% Series E convertible debentures in the amount of $40,647 ($39,636 excluding principal owned by the Company).

For the three and six months ended June 30, 2019, interest on convertible debentures net of accretion of $2,486 (2018 - $3,462) and $7,185 (2018 - $7,986), respectively, are included in interest expense (Note 18).

NOTE 12

MORGUARD RESIDENTIAL REIT UNITS

The Units issued by Morguard Residential REIT that are not held by the Company are classified as equity on Morguard Residential REIT's balance sheet but are classified as a liability on the Company's consolidated balance sheets. Morguard Residential REIT Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Morguard Residential REIT, all rights to and under the units tendered for redemption shall be surrendered, and the holder shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the market price of the Units on the principal exchange market on which the Units are listed or quoted for trading during the 10 consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; or (ii) 100% of the closing market price on the principal exchange market on which the Units are listed or quoted for trading on the redemption date.

As at June 30, 2019, the Company valued the non-controlling interest in the Morguard Residential REIT Units at $448,656 (December 31, 2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external unitholders, the Company recorded a fair value loss for the three and six months ended June 30, 2019 of $6,287 (2018 - $37,771) and $40,088 (2018 - $8,902), respectively, in the consolidated statements of income (Note 19).

The components of the fair value loss on Morguard Residential REIT Units are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Fair value gain (loss) on Morguard Residential REIT Units	**($1,692)**	($33,311)	**($30,899)**	$17
Distributions to external Unitholders (Note 4)	**(4,595)**	(4,460)	**(9,189)**	(8,919)
Fair value loss on Morguard Residential REIT Units	**($6,287)**	($37,771)	**($40,088)**	($8,902)

NOTE 13

LEASE LIABILITIES

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

As at	**June 30, 2019**	December 31, 2018
Balance, beginning of period	**$9,754**	$8,970
Adoption of IFRS 16 (Note 3)	**161,614**	—
Principal payments	**(1,018)**	—
Additions	**277**	—
Dispositions (Note 6)	**(684)**	—
Foreign exchange gain (loss)	**(437)**	784
Balance, end of period	**$169,506**	$9,754
Current (Note 14)	**$2,110**	$—
Non-current	**167,396**	9,754
	$169,506	$9,754
Weighted average borrowing rate	**5.75%**	4.96%

NOTE 14
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	June 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	**$209,299**	$185,921
Tenant deposits	**27,196**	26,260
Stock appreciation rights ("SARs") liability	**22,805**	20,105
Lease liability (Note 13)	**2,110**	—
Other	**4,058**	2,630
	$265,468	$234,916

NOTE 15
BANK INDEBTEDNESS

As at June 30, 2019, the Company has operating lines of credit totalling $374,000 (December 31, 2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at June 30, 2019, the maximum amount that can be borrowed on the operating lines of credit is $358,191 (December 31, 2018 - $344,911) which includes deducting issued letters of credit in the amount of $11,768 (December 31, 2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at June 30, 2019, the Company had borrowed $146,894 (December 31, 2018 - $225,160) on its operating lines of credit.

The bank credit agreements include certain restrictive undertakings by the Company. As at June 30, 2019, the Company is in compliance with all undertakings.

NOTE 16
SHAREHOLDERS' EQUITY

(a) Share Capital Authorized

Unlimited common shares, no par value.
Unlimited preference shares, no par value, issuable in series.

Issued and Fully Paid Common Shares	Number (000s)	Amount
Balance, December 31, 2017	11,842	$106,952
Common shares repurchased through the Company's NCIB	(515)	(4,655)
Common shares cancelled	(34)	—
Dividend reinvestment plan	1	139
Balance, December 31, 2018	11,294	102,436
Common shares repurchased through the Company's NCIB	**(11)**	**(100)**
Dividend reinvestment plan	**—**	**46**
Balance, June 30, 2019	**11,283**	**$102,382**

The Company had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 592,415 common shares. The program expired on September 21, 2018. On September 19, 2018, the Company obtained the approval of the TSX under its NCIB to purchase up to 569,854 common shares, being approximately 5% of the issued and outstanding common shares, and the program expires on September 21, 2019. The daily repurchase restriction for the common shares is 1,000. During the six months ended June 30, 2019, 11,071 common shares were purchased for cash consideration of $2,093 at a weighted average price of $189.05 per common share.

Total dividends declared during the three and six months ended June 30, 2019 amounted to $1,693, or $0.15 per common share (2018 - $1,716, or $0.15 per common share) and $3,386 (2018 - $3,438 or $0.30 per common share), respectively. On August 7, 2019, the Company declared a common share dividend of $0.15 per common share to be paid in the third quarter of 2019.

(b) Contributed Surplus

During the three months ended June 30, 2019, Temple issued 50,044,658 common shares through two rights offering in aggregate amounting to net proceeds of $80,902, of which, the Company acquired 39,807,004 common shares of Temple for cash consideration of $64,972. The non-controlling interest share relating to Temple's rights offerings, net of transaction costs, amounted to $15,930. The difference between the cash consideration and the carrying value of the non-controlling interest share amounted to $2,498 and the amount has been recorded within retained earnings.

During the three months ended June 30, 2019, the Company acquired 338,048 Units of Morguard REIT (2018 - nil Units) for cash consideration of $4,008 (2018 - $nil) and for the six months ended June 30, 2019, the Company acquired 338,048 Units of Morguard REIT (2018 - 1,119,630 Units) for cash consideration of $4,008 (2018 - $15,774). The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the three months ended June 30, 2019, amounted to $2,053 (2018 - $nil) and for the six months ended June 30, 2019, amounted to $2,053 (2018 - $12,433) and the amount has been recorded within retained earnings.

During the three months ended June 30, 2019, the Company acquired partial interests in three properties controlled by the Company located in Mississauga, Ontario, for a purchase price of $8,014, including closing costs and the assumption of partial interest of the mortgages secured by the properties (Note 5). The difference between the cash consideration and the carrying value of the non-controlling interest acquired amounted to $22 and the amount has been recorded within retained earnings.

(c) Stock Appreciation Rights Plan

The SARs granted vest equally over 10 years subject to restrictions.

As at June 30, 2019

Date of Grant	Exercise Price	Issued	Redeemed	Cancelled	Outstanding
March 20, 2008	$30.74	200,000	(54,000)	(53,500)	92,500
November 2, 2010	$43.39	55,000	(2,000)	(8,000)	45,000
May 13, 2014	$137.90	25,000	(2,000)	(8,000)	15,000
May 13, 2015	$153.82	10,000	—	—	10,000
January 11, 2017	$179.95	90,000	—	—	90,000
May 18, 2018	$163.59	125,000	—	—	125,000
August 8, 2018	$168.00	20,000	—	—	20,000
November 8, 2018	$184.00	10,000	—	—	10,000
Total		**535,000**	**(58,000)**	**(69,500)**	**407,500**

During the three and six months ended June 30, 2019, the Company recorded a fair value reduction to compensation expense of $1,344 (2018 - $110) and a fair value adjustment to increase compensation expense of $2,700 (2018 - reduction to compensation expense of $860), respectively. The expense is included in property management and corporate expenses in the consolidated statements of income, and the liability is classified as accounts payable and accrued liabilities (Note 14).

The fair value for the SARs was calculated using the Black-Scholes option pricing model. In determining the fair value of the SARs, management is required to make assumptions that could have a material impact on the valuation. The following are the assumptions that were used in determining the fair value as at June 30, 2019: a dividend yield of 0.32% (2018 - 0.36%), expected volatility of approximately 21.33% (2018 - 20.61%) and the 10-year Bank of Canada Bond Yield of 1.50% (2018 - 2.06%).

(d) Accumulated Other Comprehensive Income

As at June 30, 2019, and December 31, 2018, accumulated other comprehensive income consists of the following amounts:

As at	June 30, 2019	December 31, 2018
Actuarial gain on defined benefit pension plans	**$45,745**	$42,057
Unrealized foreign currency translation gain	**175,144**	231,297
	$220,889	$273,354

NOTE 17
REVENUE

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Rental income	**$120,938**	$116,586	**$241,566**	$231,075
Realty taxes and insurance	**33,485**	29,891	**68,252**	60,391
Common area maintenance recoveries	**25,023**	26,522	**52,531**	52,440
Property management and ancillary income	**36,647**	34,062	**73,584**	66,994
	$216,093	$207,061	**$435,933**	$410,900

The components of revenue from hotel properties are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Room revenue	**$49,592**	$46,948	**$89,130**	$86,244
Other hotel revenue	**15,607**	15,049	**29,696**	29,605
	$65,199	$61,997	**$118,826**	$115,849

The components of management and advisory fees are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Property and asset management fees	**$10,052**	$11,717	**$19,472**	$22,466
Other fees	**2,378**	2,684	**4,609**	6,372
	$12,430	$14,401	**$24,081**	$28,838

NOTE 18
INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Interest on mortgages	**$41,070**	$39,027	**$82,503**	$77,979
Interest on Unsecured Debentures (Note 10)	**8,843**	6,594	**16,863**	12,074
Interest on convertible debentures, net of accretion (Note 11)	**2,486**	3,462	**7,185**	7,986
Interest on bank indebtedness	**1,051**	1,874	**2,006**	3,259
Interest on construction loans	**—**	363	**—**	756
Interest on loans payable and other	**619**	1,141	**1,503**	1,388
Interest on lease liabilities	**2,421**	97	**4,843**	192
Amortization of mark-to-market adjustments on mortgages, net	**(1,376)**	(2,018)	**(2,852)**	(4,168)
Amortization of deferred financing costs	**1,816**	1,724	**3,634**	3,404
Loss on extinguishment of mortgages payable	**70**	—	**561**	—
	57,000	52,264	**116,246**	102,870
Less: Interest capitalized to properties under development	**(116)**	(564)	**(315)**	(1,119)
	$56,884	$51,700	**$115,931**	$101,751

NOTE 19
FAIR VALUE GAIN (LOSS), NET

The components of fair value gain (loss) are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Fair value gain on real estate properties, net	**$15,782**	$71,986	**$64,269**	$137,275
Financial assets (liabilities):				
Fair value gain (loss) on conversion option of MRG convertible debentures	**126**	(445)	**(1,226)**	126
Fair value loss on MRG Units (Note 12)	**(6,287)**	(37,771)	**(40,088)**	(8,902)
Fair value gain (loss) on other real estate fund investments (Note 7(b))	**(705)**	88	**4,330**	1,254
Fair value gain on investment in marketable securities	**398**	671	**2,985**	783
Total fair value gain (loss), net	**$9,314**	$34,529	**$30,270**	$130,536

NOTE 20
OTHER INCOME (EXPENSE)

The components of other income (expense) are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Foreign exchange gain (loss)	**($1,109)**	$729	**($2,789)**	$3,096
Gain on sale of hotel property (Note 6)	**—**	—	**508**	—
Gain on finance lease	**—**	2,692	**—**	2,692
Other income (expense)	**(37)**	61	**1,320**	(107)
	($1,146)	$3,482	**($961)**	$5,681

NOTE 21
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 7 and 10, related party transactions also include the following:

(a) Paros Enterprises Limited ("Paros")

Paros is the majority shareholder and ultimate parent of the Company. Paros is owned by the Company's Chairman and Chief Executive Officer, Mr. K. Rai Sahi.

The Company entered into a demand loan agreement with Paros that provides for the Company to borrow up to $22,000. The total loan payable outstanding from Paros as at June 30, 2019 was $nil (December 31, 2018 - $12,500). During the three and six months ended June 30, 2019, the Company incurred net interest expense of $nil (2018 - $nil) and $30 (2018 - $nil), respectively.

(b) TWC Enterprises Limited ("TWC")

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the three and six months ended June 30, 2019, the Company received a management fee of $327 (2018 - $203) and $653 (2018 - $408), respectively, and for the three and six months ended June 30, 2019, paid rent and operating expenses of $169 (2018 - $189) and $345 (2018 - $339), respectively.

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at June 30, 2019 was $38,170 (December 31, 2018 - $47,809). During the three and six months ended June 30, 2019, the Company paid net interest of $397 (2018 - earned net interest of $63) and $800 (2018 - earned net interest of $138), respectively.

(c) Share/Unit Purchase and Other Loans

As at June 30, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,450 (December 31, 2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable in the consolidated balance sheets. As at June 30, 2019, the fair market value of the common shares/Units held as collateral is $94,905.

NOTE 22
INCOME TAXES

(a) Tax Provision

For the three and six months ended June 30, 2019, the Company recorded an income tax provision of $16,004 (2018 - $30,818) and $24,888 (2018 - $39,993), respectively. The effective tax rate of the current and the prior period was impacted by the tax rate differential. The effective tax rate of the prior period was also impacted by the non-recognition of the benefit of certain deductible temporary difference and the change of estimate of deferred tax liabilities.

(b) Unrecognized Deductible Temporary Differences

As at June 30, 2019, the Company's U.S. subsidiaries have total net operating losses of US$76,602 (December 31, 2018 - US$84,395) of which no deferred tax assets were recognized in respect of US$76,602 (December 31, 2018 - US$76,456) net operating losses as it is not probable that taxable income will be available against which the deductible temporary difference can be utilized. The net operating losses expire in varying years commencing 2030. As at June 30, 2019, the Company's U.S. subsidiaries have total net operating loss of US$nil (December 31, 2018 - US$7,939) of which deferred tax assets were recognized. As at June 30, 2019, the Company's U.S. subsidiaries have total of US$15,691 (December 31, 2018 - US$13,124) of unutilized interest expense deductions, of which deferred tax assets were recognized.

As at June 30, 2019, the Company's Canadian subsidiaries have total net operating losses of $199,785 (December 31, 2018 - $191,263) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which they can be utilized. These losses expire in various years commencing 2023.

As at June 30, 2019, the Company has other Canadian temporary differences of $22,879 (December 31, 2018 - $26,360) for which no deferred tax asset was recognized. These other temporary differences have no expiration date.

NOTE 23
NET INCOME PER COMMON SHARE

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Net income attributable to common shareholders	**$69,722**	$75,604	**$103,208**	$192,212
Weighted average number of common shares outstanding (000s) - basic and diluted	**11,285**	11,444	**11,287**	11,493
Net income per common share - basic and diluted	**$6.17**	$6.62	**$9.14**	$16.72

NOTE 24
CONSOLIDATED STATEMENTS OF CASH FLOWS
(a) Items Not Affecting Cash

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Fair value gain on real estate properties, net	**($25,254)**	($79,786)	**($45,440)**	($121,552)
Fair value loss (gain) on conversion option of MRG convertible debentures (Note 19)	**(126)**	445	**1,226**	(126)
Fair value loss (gain) on MRG Units (Note 12)	**1,692**	33,311	**30,899**	(17)
Fair value loss (gain) on other real estate investment funds (Note 19)	**705**	(88)	**(4,330)**	(1,254)
Fair value gain on investment in marketable securities (Note 19)	**(398)**	(671)	**(2,985)**	(783)
Equity loss (income) from investments	**4,658**	394	**3,212**	(195)
Amortization of hotel properties	**6,788**	6,106	**13,560**	12,618
Amortization of capital assets and other	**2,062**	1,578	**4,079**	3,202
Amortization of deferred financing costs (Note 18)	**1,816**	1,724	**3,634**	3,404
Amortization of mark-to-market adjustments on mortgages, net (Note 18)	**(1,376)**	(2,018)	**(2,852)**	(4,168)
Loss on extinguishment of mortgages payable (Note 18)	**70**	—	**561**	—
Amortization of tenant incentive	**444**	568	**933**	771
Stepped rent - adjustment for straight-line method	**(220)**	(1,305)	**(123)**	(1,509)
Deferred income taxes	**12,399**	22,826	**20,145**	30,319
Accretion of convertible debentures	**242**	454	**2,053**	1,515
Gain on sale of hotel property (Note 20)	**—**	—	**(508)**	—
Gain on finance lease (Note 20)	**—**	(2,692)	**—**	(2,692)
Provision for impairment	**—**	6,661	**—**	6,661
	$3,502	($12,493)	**$24,064**	($73,806)

(b) Net Change in Operating Assets and Liabilities

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Amounts receivable	**($1,153)**	($1,190)	**($5,553)**	$2,573
Prepaid expenses and other	**(8,088)**	601	**(23,012)**	(8,171)
Accounts payable and accrued liabilities	**10,215**	(20,216)	**7,097**	(12,575)
Net change in operating assets and liabilities	**$974**	($20,805)	**($21,468)**	($18,173)

(c) Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Interest paid	**$63,267**	$48,014	**$115,410**	$90,498
Interest received	**1,334**	917	**2,672**	1,834
Income taxes paid	**5,059**	5,622	**14,391**	12,583

During the three and six months ended June 30, 2019, the Company issued non-cash dividends under the distribution reinvestment plan of $21 (2018 - $42) and $46 (2018 - $79), respectively.

(d) Reconciliation of Liabilities Arising from Financing Activities

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

	Mortgages payable	Unsecured debentures	Convertible debentures	Lease liabilities	Loans payable	Bank indebtedness	Total
Balance, beginning of period	$4,362,701	$597,697	$227,999	$9,754	$60,309	$225,160	$5,483,620
Adoption of IFRS 16	—	—	—	161,614	—	—	161,614
Repayments	(54,713)	—	—	(1,018)	(66,732)	(284,914)	(407,377)
New financing, net	10,947	223,575	—	277	48,000	206,648	489,447
Lump-sum repayments	(37,084)	—	(39,636)	—	—	—	(76,720)
Non-cash changes	(29,825)	567	4,096	(684)	—	—	(25,846)
Foreign exchange	(53,371)	—	—	(437)	(3,407)	—	(57,215)
Balance, June 30, 2019	**$4,198,655**	**$821,839**	**$192,459**	**$169,506**	**$38,170**	**$146,894**	**$5,567,523**

NOTE 25
CONTINGENCIES

The Company is contingently liable with respect to litigation, claims and environmental matters that arise from time to time, including those that could result in mandatory damages or other relief, which could result in significant expenditures. While the final outcome of these matters cannot be predicted with certainty, in the opinion of management, any uninsured liability that may arise from such contingencies would not have a material adverse effect on the financial position or results of operations of the Company. Any settlement of claims in excess of amounts recorded will be charged to operations as and when such determination is made.

The Company is a lessee under a ground lease that expires on June 30, 2060. In accordance with the terms of the lease, the annual rent was scheduled to be reset to 6% of the fair market value of the land effective July 1, 2010. Since the lessor and the Company were not able to reach an agreement on the fair market value of the land on the last schedule's reset date of July 1, 2010, the matter was appointed to an arbitration tribunal (the "Arbitrators"). On June 21, 2013, a majority of the Arbitrators awarded their decision and concluded on a land value that resulted in the annual land rent increasing from $2,779 to $10,962 (the "Majority Decision"). In accordance with the Majority Decision, the Company has recorded the land rent based on the increased annual rent of $10,962.

On April 27, 2018, the Company reached an agreement on the fair market value of the land for the period from July 1, 2010 through June 30, 2030 that resulted in the annual land rent increasing from $2,779 to $8,760. The Company settled and paid an amount of $15,759 for arrears of rent and interest from July 1, 2010 to April 30, 2018. In accordance with the Majority Decision, for the period from July 1, 2010 to April 30, 2018, the Company recorded annual land rent of $10,962 and reversed $17,250 (pre-tax) of land rent previously expensed during the second quarter of 2018.

NOTE 26
MANAGEMENT OF CAPITAL

Refer to the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2018, for an explanation of the Company's capital management policy.

The total managed capital for the Company as at June 30, 2019, and December 31, 2018, is summarized below:

As at	June 30, 2019	December 31, 2018
Mortgages payable, principal balance	**$4,205,687**	$4,369,811
Unsecured Debentures, principal balance	**825,000**	600,000
Convertible debentures, principal balance	**195,500**	235,136
Loans payable	**38,170**	60,309
Bank indebtedness	**146,894**	225,160
Lease liabilities	**169,506**	9,754
Shareholders' equity	**3,476,253**	3,431,366
	$9,057,010	$8,931,536

The Company monitors its capital structure based on an interest coverage ratio and a debt to gross book value ratio. These ratios are used by the Company to manage an acceptable level of leverage and are calculated in accordance with the terms of the specific agreements with creditors and are not considered measures in accordance with IFRS; nor is there an equivalent IFRS measure.

The Company's Unsecured Debentures contain covenants that are calculated on a non-consolidated basis, which represents the Company's consolidated results prepared in accordance with IFRS as shown on the Company's most recently published annual audited consolidated financial statements, adjusted, as required, to account for the Company's public entity investments in Morguard Residential REIT, Morguard REIT and Temple using the equity method. The covenants that the Company must maintain are a non-consolidated interest coverage ratio above 1.65 times, a non-consolidated debt to gross book value ratio not to exceed 65% and a minimum non-consolidated equity requirement of at least $300,000. If the Company does not meet these covenants, the Unsecured Debentures will become immediately due and payable unless the Company is able to remedy the default or obtain a waiver from lenders. The Company is in compliance with all Unsecured Debenture covenants.

NOTE 27

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer to the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2018, for an explanation of the Company's risk management policy as it relates to financial instruments.

Fair Value of Financial Assets and Financial Liabilities

The fair values of cash, restricted cash, amounts receivable, accounts payable and accrued liabilities and bank indebtedness approximate their carrying values due to the short-term maturity of those instruments. The fair values of construction financing payable and mortgages and loans receivable are based on the current market conditions for financing loans with similar terms and risks. The loans payable are reflected at fair value since they are based on a floating interest rate and reflect the terms of current market conditions.

Mortgages payable, Unsecured Debentures, convertible debentures, lease liabilities and finance lease receivable are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings have been determined based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using June 30, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at June 30, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,328,655 (December 31, 2018 - $4,428,532), compared with the carrying value of $4,205,687 (December 31, 2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price (Level 1). As at June 30, 2019, the fair value of the Unsecured Debentures has been estimated at $846,509 (December 31, 2018 - $603,624) compared with the carrying value of $825,000 (December 31, 2018 - $600,000).

The fair value of the convertible debentures liability is based on their market trading prices (Level 1). As at June 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $198,781 (December 31, 2018 - $229,797), compared with the carrying value of $195,500 (December 31, 2018 - $235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using June 30, 2019, market rates for debt on similar terms (Level 3). Based on these assumptions, as at June 30, 2019, the fair value of the finance lease receivable has been estimated at $56,257 (December 31, 2018 - $55,941).

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

	June 30, 2019			December 31, 2018		
As at	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$9,718,668**	$—	$—	$9,645,596
Investments in real estate funds	**—**	**—**	**103,985**	—	—	103,984
Investment in marketable securities	**41,591**	**—**	**—**	38,606	—	—
Financial liabilities:						
Morguard Residential REIT Units	**—**	**448,656**	**—**	—	417,481	—
Conversion option on MRG convertible debentures	**—**	**3,695**	**—**	—	2,469	—

NOTE 28
SEGMENTED INFORMATION
(a) Operating Segments

The Company has the following five reportable segments after aggregation: (i) multi-suite residential, (ii) retail, (iii) office, (iv) industrial, and (v) hotel. The Company has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

The following summary presents certain financial information regarding the Company's operating segments:

For the three months ended June 30, 2019	**Multi-suite Residential**	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
Revenue from real estate/hotel properties	**$90,981**	**$62,468**	**$59,145**	**$3,499**	**$65,199**	**$281,292**
Property/hotel operating expenses	**(30,625)**	**(26,034)**	**(25,288)**	**(1,043)**	**(48,157)**	**(131,147)**
Net operating income	**$60,356**	**$36,434**	**$33,857**	**$2,456**	**$17,042**	**$150,145**

For the three months ended June 30, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$86,570	$60,725	$55,840	$3,926	$61,997	$269,058
Property/hotel operating expenses	(28,879)	(27,018)	(24,383)	(1,190)	(44,603)	(126,073)
	$57,691	$33,707	$31,457	$2,736	$17,394	$142,985
Land rent arbitration settlement						17,250
Net operating income						$160,235

For the six months ended June 30, 2019	**Multi-suite Residential**	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
Revenue from real estate/hotel properties	**$182,614**	**$127,101**	**$119,442**	**$6,776**	**$118,826**	**$554,759**
Property/hotel operating expenses	**(95,340)**	**(57,999)**	**(51,858)**	**(2,172)**	**(92,671)**	**(300,040)**
Net operating income	**$87,274**	**$69,102**	**$67,584**	**$4,604**	**$26,155**	**$254,719**

For the six months ended June 30, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$170,433	$121,395	$111,784	$7,288	$115,849	$526,749
Property/hotel operating expenses	(85,020)	(59,902)	(49,438)	(2,286)	(87,373)	(284,019)
	$85,413	$61,493	$62,346	$5,002	$28,476	$242,730
Land rent arbitration settlement						17,250
Net operating income						$259,980

	Multi-suite Residential	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
As at June 30, 2019						
Real estate/hotel properties	**$4,543,223**	**$2,740,873**	**$2,267,737**	**$150,890**	**$659,894**	**$10,362,617**
Mortgages payable	**$1,906,510**	**$897,256**	**$962,102**	**$31,401**	**$401,386**	**$4,198,655**
For the six months ended June 30, 2019						
Additions to real estate/hotel properties	**$16,653**	**$16,905**	**$12,789**	**$401**	**$11,722**	**$58,470**
Fair value gain (loss) on real estate properties	**$89,126**	**($26,271)**	**$981**	**$433**	**$—**	**$64,269**

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at December 31, 2018						
Real estate/hotel properties	$4,586,202	$2,642,745	$2,250,514	$166,135	$666,078	$10,311,674
Mortgages payable	$2,010,392	$913,478	$983,750	$31,826	$423,255	$4,362,701
For the six months ended June 30, 2018						
Additions to real estate/hotel properties	$120,306	$44,356	$65,728	$44,609	$27,917	$302,916
Fair value gain on real estate properties	$125,011	$4,130	$6,244	$1,890	$—	$137,275

(b) Regional Segments

The following summary presents financial information by the regions in which the Company operates:

As at	**June 30, 2019**	December 31, 2018
Real estate and hotel properties		
Canada	**$7,590,337**	$7,376,407
United States	**2,772,280**	2,935,267
	$10,362,617	$10,311,674

	Three months ended June 30		**Six months ended June 30**	
	2019	2018	**2019**	2018
Revenue from real estate and hotel properties				
Canada	**$218,227**	$209,586	**$427,347**	$410,751
United States	**63,065**	59,472	**127,412**	115,998
	$281,292	$269,058	**$554,759**	$526,749

NOTE 29
SUBSEQUENT EVENTS

On July 24, 2019, the Company acquired an office property consisting of 157,350 square feet located in Ottawa, Ontario, for a purchase price of $52,000, excluding closing costs.

On August 1, 2019, the Company sold its 50% interest in an industrial property, consisting of 242,521 square feet located in Salaberry-de-Valleyfield, Québec, for gross proceeds of $16,125.

Subsequent to June 30, 2019, the Company increased its investment in marketable securities in the amount of $65,570.