Real Estate Potential. Realized.

MORGUARD CORPORATION

DECEMBER 31, 2019

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT’S REPORT TO SHAREHOLDERS

The consolidated financial statements of Morguard Corporation (the “Company” or “Morguard”) have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). Management is responsible for the information in these consolidated financial statements and other sections of this annual report.

Management maintains a system of internal controls to provide reasonable assurance that the Company’s assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. Where necessary, management uses its judgment to make estimates required to ensure fair and consistent presentation of this information. Management recognizes its responsibility for conducting the Company’s affairs in compliance with applicable laws and proper standards of conduct.

As at December 31, 2019, the Chief Executive Officer and Chief Financial Officer evaluated, or caused the evaluation of under their direct supervision, the disclosure controls and procedures and the internal controls over financial reporting (as defined in Multilateral Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings)* and, based on that assessment, determined that the disclosure controls and procedures were designed and operating effectively and the internal controls over financial reporting were designed and operating effectively.

The Audit Committee of the Board of Directors of the Company, consisting solely of independent directors, has reviewed the consolidated financial statements, the report to shareholders of the external auditors, Ernst & Young LLP, and the management’s discussion and analysis with management and recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements.

Ernst & Young LLP, as independent auditors, have conducted the audits in accordance with Canadian generally accepted auditing standards and have had full access to the Audit Committee, with and without management being present.

(Signed) “K. Rai Sahi”

K. Rai Sahi
Chief Executive Officer

(Signed) “Paul Miatello”

Paul Miatello
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Morguard Corporation

Opinion

We have audited the consolidated financial statements of Morguard Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
February 20, 2020

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31	Note	2019	2018
ASSETS			
Non-current assets			
Real estate properties	5	**$10,201,283**	$9,645,596
Hotel properties	6	**628,783**	666,078
Equity-accounted and other fund investments	8	**248,665**	281,464
Other assets	9	**401,501**	285,103
		11,480,232	10,878,241
Current assets			
Amounts receivable		**80,588**	76,879
Prepaid expenses and other		**19,096**	17,237
Cash		**123,168**	110,401
		222,852	204,517
		$11,703,084	$11,082,758
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable	10	**$3,781,668**	$3,573,185
Unsecured debentures	11	**846,666**	597,697
Convertible debentures	12	**193,503**	225,936
Lease liabilities	14	**164,441**	9,754
Morguard Residential REIT Units	13	**516,462**	417,481
Deferred income tax liabilities	23	**733,786**	717,943
		6,236,526	5,541,996
Current liabilities			
Mortgages payable	10	**583,611**	789,516
Unsecured debentures	11	**199,778**	—
Convertible debentures	12	**—**	2,063
Loans payable	22	**33,679**	60,309
Accounts payable and accrued liabilities	15	**242,673**	234,916
Bank indebtedness	16	**101,100**	225,160
		1,160,841	1,311,964
Total liabilities		**7,397,367**	6,853,960
EQUITY			
Shareholders' equity		**3,548,906**	3,431,366
Non-controlling interest		**756,811**	797,432
Total equity		**4,305,717**	4,228,798
		$11,703,084	$11,082,758

Commitments and contingencies	27		

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(Signed) "K. Rai Sahi" *(Signed) "Bruce K. Robertson"*

K. Rai Sahi,
Director

Bruce K. Robertson,
Director

STATEMENTS OF INCOME

In thousands of Canadian dollars, except per common share amounts

For the years ended December 31	Note	2019	2018
Revenue from real estate properties	18	**$872,223**	$841,497
Revenue from hotel properties	18	**245,282**	237,938
Land rent arbitration settlement	27	**—**	17,250
Property operating expenses			
Property operating costs		**(186,656)**	(184,986)
Utilities		**(58,167)**	(57,160)
Realty taxes		**(126,773)**	(126,076)
Hotel operating expenses		**(189,728)**	(180,488)
Net operating income		**556,181**	547,975
OTHER REVENUE			
Management and advisory fees	18	**52,401**	62,096
Interest and other income		**17,294**	10,947
Sales of product and land		**5,773**	5,400
		75,468	78,443
EXPENSES			
Interest	19	**230,895**	210,464
Property management and corporate		**94,129**	92,665
Cost of sales of product and land		**3,800**	3,698
Amortization of hotel properties	6	**27,902**	25,342
Amortization of capital assets and other		**8,250**	6,518
Provision for impairment	6	**22,923**	29,668
		387,899	368,355
OTHER INCOME (EXPENSE)			
Fair value gain, net	20	**7,731**	167,235
Equity loss from investments	8	**(28,825)**	(22,654)
Other income	21	**2,835**	13,424
		(18,259)	158,005
Income before income taxes		**225,491**	416,068
Provision for income taxes	23		
Current		**11,422**	15,216
Deferred		**25,273**	56,794
		36,695	72,010
Net income for the year		**$188,796**	$344,058
Net income attributable to:			
Common shareholders		**$186,939**	$319,851
Non-controlling interest		**1,857**	24,207
		$188,796	$344,058
Net income per common share attributable to:			
Common shareholders - basic and diluted	24	**$16.57**	$27.96

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the years ended December 31	Note	2019	2018
Net income for the year		**$188,796**	$344,058
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to net income:			
Unrealized foreign currency translation gain (loss)		**(77,743)**	112,621
Gain on interest rate swap agreement		**—**	161
		(77,743)	112,782
Deferred income tax recovery	23(b)	**643**	467
		(77,100)	113,249
Items that will not be reclassified subsequently to net income:			
Actuarial gain (loss) on defined benefit pension plans	26	**9,825**	(6,721)
Deferred income tax recovery (provision)	23(b)	**(2,472)**	1,796
		7,353	(4,925)
Other comprehensive income (loss)		**(69,747)**	108,324
Total comprehensive income for the year		**$119,049**	$452,382
Total comprehensive income (loss) attributable to:			
Common shareholders		**$121,489**	$420,538
Non-controlling interest		**(2,440)**	31,844
		$119,049	$452,382

See accompanying notes to the 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 year:							
Net income		319,851	—	—	319,851	24,207	344,058
Other comprehensive income		—	100,687	—	100,687	7,637	108,324
Dividends		(6,842)	—	—	(6,842)	—	(6,842)
Distributions		—	—	—	—	(29,778)	(29,778)
Issuance of common shares		—	—	139	139	—	139
Repurchase of common shares		(87,720)	—	(4,655)	(92,375)	—	(92,375)
Adjustment on adoption of IFRS 9		17,315	(17,315)	—	—	—	—
Change in ownership of Morguard REIT		26,921	—	—	26,921	(53,850)	(26,929)
Change in ownership of Temple Hotels Inc.		312	—	—	312	(2,480)	(2,168)
Shareholders' equity, December 31, 2018		$3,055,576	$273,354	$102,436	$3,431,366	$797,432	$4,228,798
Changes during the year:							
Net income		**186,939**	**—**	**—**	**186,939**	**1,857**	**188,796**
Other comprehensive loss		**—**	**(65,450)**	**—**	**(65,450)**	**(4,297)**	**(69,747)**
Dividends	17(a)	**(6,770)**	**—**	**—**	**(6,770)**	**—**	**(6,770)**
Distributions		**—**	**—**	**—**	**—**	**(28,029)**	**(28,029)**
Issuance of common shares	17(a)	**—**	**—**	**90**	**90**	**—**	**90**
Repurchase of common shares	17(a)	**(1,993)**	**—**	**(100)**	**(2,093)**	**—**	**(2,093)**
Contribution from non-controlling interest	17(b)	**—**	**—**	**—**	**—**	**15,930**	**15,930**
Change in ownership of Temple Hotels Inc.	17(b)	**(2,498)**	**—**	**—**	**(2,498)**	**2,449**	**(49)**
Change in ownership of Morguard REIT	17(b)	**6,418**	**—**	**—**	**6,418**	**(13,034)**	**(6,616)**
Increase in subsidiary ownership interest		**—**	**—**	**—**	**—**	**(15,497)**	**(15,497)**
Tax impact of increase in subsidiary ownership interest	23(b)	**904**	**—**	**—**	**904**	**—**	**904**
Shareholders' equity, December 31, 2019		**$3,238,576**	**$207,904**	**$102,426**	**$3,548,906**	**$756,811**	**$4,305,717**

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the years ended December 31	Note	2019	2018
OPERATING ACTIVITIES			
Net income for the year		**$188,796**	$344,058
Add (deduct) items not affecting cash	25(a)	**93,192**	(46,610)
Distributions from equity-accounted investments	8	**6,778**	4,472
Land held for residential development and sale		**(7)**	(13)
Additions to development property - inventory		**—**	(3,930)
Additions to tenant incentives and leasing commissions	5	**(7,521)**	(8,170)
Net change in operating assets and liabilities	25(b)	**1,176**	1,597
Cash provided by operating activities		**282,414**	291,404
INVESTING ACTIVITIES			
Additions to real estate properties and tenant improvements	5	**(391,302)**	(425,643)
Additions to hotel properties	6	**(17,876)**	(17,029)
Additions to capital and intangible assets		**(12,659)**	(5,923)
Proceeds from the sale of real estate properties, net	5	**64,653**	7,214
Proceeds from the sale of hotel properties, net	6	**1,849**	—
Investment in properties under development	5	**(50,045)**	(94,498)
Investment in equity-accounted and other fund investments, net		**(68,708)**	(7,786)
Investment in marketable securities		**(87,668)**	(41,510)
Increase in mortgages and loans receivable		**—**	(82,783)
Decrease in mortgages and loans receivable		**—**	108,244
Cash used in investing activities		**(561,756)**	(559,714)
FINANCING ACTIVITIES			
Proceeds from new mortgages		**475,981**	477,769
Financing costs on new mortgages		**(3,275)**	(2,797)
Repayment of mortgages			
Repayments on maturity		**(308,293)**	(196,704)
Repayments due to mortgage extinguishments		**(62,967)**	—
Principal instalment repayments		**(110,771)**	(109,578)
Principal payment of lease liabilities		**(2,099)**	—
Proceeds from bank indebtedness		**380,344**	705,255
Repayment of bank indebtedness		**(504,404)**	(529,745)
Proceeds from issuance of Morguard Residential REIT Units, net of cost	13	**74,528**	—
Proceeds from issuance of unsecured debentures, net of costs	11	**447,575**	198,805
Redemption of unsecured debentures		**—**	(135,000)
Proceeds from issuance of convertible debentures, net of costs		**—**	77,125
Redemption of convertible debentures	12	**(39,636)**	(90,998)
Proceeds from construction financing		**—**	1,481
Repayment of construction financing		**—**	(37,957)
Proceeds from (repayment of) loans payable, net		**(22,784)**	55,772
Dividends paid		**(6,680)**	(6,703)
Distributions to non-controlling interest		**(27,100)**	(29,242)
Contribution from non-controlling interest	17(b)	**15,930**	—
Common shares repurchased for cancellation	17(a)	**(2,093)**	(92,375)
Investment in Morguard REIT	17(b)	**(6,616)**	(26,929)
Investment in Temple Hotels Inc.	17(b)	**(49)**	(2,168)
Increase in subsidiary ownership interest	17(b)	**(8,014)**	—
Decrease (increase) in restricted cash		**4,936**	(7,733)
Cash provided by financing activities		**294,513**	248,278
Net increase (decrease) in cash during the year		**15,171**	(20,032)
Net effect of foreign currency translation on cash balance		**(2,404)**	(4,017)
Cash, beginning of year		**110,401**	134,450
Cash, end of year		**$123,168**	$110,401

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved and authorized for issue by the Board of Directors on February 20, 2020.

Basis of Presentation

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company, as well as the entities that are controlled by the Company ("subsidiaries"). The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date of acquisition or the date on which the Company obtains control and are deconsolidated from the date that control ceases. Intercompany transactions, balances, unrealized losses and unrealized gains on transactions between the Company and its subsidiaries are eliminated.

Non-controlling Interests and MRG Convertible Debentures

Non-controlling interests represent equity interests in subsidiaries that are not attributable to the Company. For all of the Company's subsidiaries, with the exception of Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT" or "MRG"), the share of the net assets of the subsidiaries that is attributable to non-controlling interest is presented as a component of equity.

The Units of Morguard Residential REIT are redeemable at the option of the holder and therefore are considered puttable instruments that meet the definition of a financial liability under International Accounting Standard 32, *Financial Instruments - Presentation* ("IAS 32"). Whereas certain exceptions in IAS 32 allow Morguard Residential REIT to classify the Units as equity in its own balance sheet, this exception is not available to the Company, and therefore the non-controlling interest that these Units represent is classified as a liability in the consolidated financial statements of the Company and is measured at fair value, which is based on the Units' redemption amount, with changes in the redemption amount recorded in the consolidated statements of income in the period of the change.

Similarly, the conversion feature component of the convertible debentures issued by Morguard Residential REIT also meets the definition of a financial liability and is recorded in the consolidated balance sheets as a liability, measured at fair value based on the Black-Scholes option pricing model, with changes in fair value recognized in the consolidated statements of income. Any directly attributable transaction costs were allocated to the debt and conversion components of the convertible debentures in proportion to their initial carrying amounts, with the portion allocated to the conversion component expensed immediately.

Investments in Associates

Associates are entities over which the Company has significant influence but not control or joint control, generally accompanying an ownership of between 20% and 50% of the voting rights. However, determining significant influence is a matter of judgment and specific circumstances and, from time to time, the Company may hold an interest of less than 20% and exert significant influence through representation on the board of directors, through direction of management or through contractual agreements.

Investments in associates are accounted for using the equity method, whereby the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognizes the amount in the consolidated statements of income and comprehensive income.

Interests in Joint Arrangements

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

Real Estate Properties

Real estate properties include residential, retail, office and industrial properties held to earn rental income and for capital appreciation and properties or land that are being constructed or developed for future use as income producing properties.

Income Producing Properties

Income producing property that is acquired as an asset purchase and not as a business combination is recorded initially at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal and other services and initial leasing commissions, of which transfer taxes and professional fees represent the majority of the costs.

Subsequent to initial recognition, income producing properties are recorded at fair value. The changes in fair value for each reporting period will be recorded in the consolidated statements of income. In order to avoid double counting, the carrying value of income producing properties includes straight-line rent receivable, tenant improvements, tenant incentives, capital expenditures and direct leasing costs since these amounts are incorporated in the appraised values of the real estate properties. Fair value is based on external and internal valuations using recognized valuation techniques, including the direct capitalization of income and discounted cash flow methods. Recent real estate transactions with characteristics and location similar to the Company's assets are also considered.

Tenant improvements include costs incurred to meet the Company's lease obligations and are classified as either tenant improvements owned by the landlord or tenant incentives. When the obligation is determined to be an improvement that benefits the landlord and is owned by the landlord, the improvement is accounted for as a capital expenditure and included in the carrying amount of income producing properties in the consolidated balance sheets.

Leasing costs include incremental costs associated with leasing activities such as external leasing commissions. These costs are included in the carrying amount of income producing properties in the consolidated balance sheets.

Hotel Properties

Hotel properties comprise land, buildings, furniture, fixtures and equipment, and other and are stated at cost less accumulated amortization and any impairment losses. The application of this policy requires an estimate of the useful life of the asset and its residual value. The revenue and operating expenses of the hotel properties are included within net operating income in the consolidated statements of income.

The Company provides for amortization of hotel properties so as to apply the cost of the assets over the estimated useful lives as follows:

	Method	Rate
Buildings	Straight-line	40 years
Furniture, fixtures and equipment	Straight-line	5 to 10 years
Other	Straight-line	5 to 10 years

Properties Under Development

The cost of properties under development includes all expenditures incurred in connection with the acquisition, including all direct development costs, realty taxes and other costs to prepare it for its productive use and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on the purchase cost of a site or property acquired specifically for redevelopment in the short term if the activities necessary to prepare the asset for development or redevelopment are in progress. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The Company considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this consideration occurs on completion of construction and receipt of all necessary occupancy and other material permits. Where the Company has pre-leased space as of or prior to the start of the development and the lease requires the Company to construct tenant improvements that enhance the value of the property, practical completion is considered to occur on completion of such improvements.

Real estate properties under development are measured at fair value, with changes in fair value being recognized in the consolidated statements of income when fair value can be reliably determined.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks, and short-term deposits with remaining maturities at the time of acquisition of three months or less. Bank borrowings are considered to be financing activities.

Goodwill

On acquisition of a business, the underlying fair value of net identifiable tangible and intangible assets is determined, and goodwill is recognized as the excess of the purchase price over this amount. Goodwill is not amortized.

Capital Assets

Capital assets include the following assets, which are stated at cost and amortized over their estimated useful lives using the following rates and methods:

Building (owner-occupied property)	Straight-line over 40 years
Leasehold improvements	Straight-line over the term of the lease
Furniture, fixtures, office and computer equipment	Straight-line ranging from 5 to 10 years

Intangible Assets

The Company's intangible assets comprise: (i) the value assigned to an acquired investment advisory contract, amortized over an estimated 10-year useful life on a straight-line basis; and (ii) the cost of self-built management information systems and computer application software that is initially recognized at cost and amortized over an estimated 5 to 10 year useful life on a straight-line basis.

Inventory - Land Held for Residential Development

Land for residential development properties that is acquired or improved for sale in the ordinary course of business is recorded at the lower of cost or estimated net realizable value and is classified in the consolidated balance sheets as residential inventory properties, which are included as part of "other assets" (Note 9). Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue and include borrowing costs directly attributable to projects under active development. Residential developments are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may exceed net realizable value. An impairment loss is recognized in income when the carrying value of the land exceeds its net realizable value. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

Impairment of Non-financial Assets

The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment and investments in joint arrangements are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets, including goodwill, that do not generate largely independent cash inflows are combined into cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell or value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in net income. Impairment losses for goodwill are not revalued.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value for the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessment of the time value of money and the risks specific to the obligation. Provisions are remeasured at each consolidated balance sheet date using the current discount rate. The increase in the provision due to the passage of time is recognized as interest expense.

Financial Instruments

Recognition and Measurement of Financial Instruments

Financial assets must be classified and measured on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Initially, all financial assets and financial liabilities are recorded in the consolidated balance sheets at fair value. After initial recognition, the effective interest related to financial assets and liabilities measured at amortized cost and the gain or loss arising from the change in the fair value of financial assets or liabilities classified as FVTPL are included in net income for the year in which they arise. At each consolidated balance sheet date, financial assets measured at amortized cost or at FVTOCI, except for investment in equity instruments, require an impairment analysis using the expected credit loss model ("ECL model") to determine the expected credit losses using judgment determined on a probability weighting basis. The expected credit losses on trade receivables are calculated using an aging provision matrix applying loss factors to aging categories greater than 60 days past due.

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

Financial Assets	
Investment in real estate funds	FVTPL
Investment in marketable securities	FVTPL
Finance lease receivable	Amortized cost
Mortgages and loans receivable	Amortized cost
Amounts receivable	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
Financial Liabilities	
Mortgages payable	Amortized cost
Unsecured debentures	Amortized cost
Convertible debentures, excluding conversion option	Amortized cost
Loans payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liabilities	Amortized cost
Bank indebtedness	Amortized cost
Conversion option of MRG convertible debentures	FVTPL
Morguard Residential REIT Units	FVTPL

Transaction Costs

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability.

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

Derivatives and Embedded Derivatives

All derivative instruments, including embedded derivatives, are recorded in the consolidated balance sheets at fair value unless exempted from derivative treatment as a normal purchase and sale.

The Company enters into interest rate swaps to hedge its risk associated with interest rates. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Hedge accounting is discontinued prospectively when the hedging relationship is terminated, when the instrument no longer qualifies as a hedge or when the hedging item is sold or terminated. In cash flow hedging relationships, the portion of the change in the fair value of the hedging derivative that is considered to be effective is recognized in other comprehensive income ("OCI"), while the portion considered to be ineffective is recognized in net income. Unrealized hedging gains and losses in accumulated other comprehensive income are reclassified to net income in the years when the hedged item affects net income. Gains and losses on derivatives are immediately reclassified to net income when the hedged item is sold or terminated.

Fair Value

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

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

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

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

Revenue Recognition

Revenue from Real Estate Properties

Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has not transferred substantially all of the risks and benefits of ownership of its income producing properties and, therefore, accounts for leases with its tenants as operating leases.

Rental income from tenants under leases include lease components within the scope of IFRS 16, *Leases* (“IFRS 16”) and are comprised of rental income, percentage participation rents, lease cancellation fees, leasing concessions and property taxes and insurance recoveries. Rental income is accounted for on a straight-line basis over the lease terms. Percentage participation rents are accrued based on sales estimates submitted by tenants if the tenant anticipates attaining the minimum sales level stipulated in the tenant lease. Property tax and insurance recoveries are recognized as revenue in the period in which they are earned.

The Company accounts for stepped rents and free rent periods on a straight-line basis, which are reflected in the consolidated balance sheets in the carrying value of real estate properties and recognized in the consolidated statements of income over the initial term of the lease. Any suite-specific incentives offered or initial direct costs incurred in negotiating and arranging an operating lease are reflected in the consolidated balance sheets in the carrying value of income producing properties and are amortized over the term of the operating lease and recognized in the consolidated statements of income on a straight-line basis.

Common area maintenance recoveries are considered non-lease components and within the scope of IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”). The performance obligation for the recovery of common area maintenance is satisfied over time. The Company receives variable consideration for common area maintenance recoveries under net leases to the extent costs have been incurred, and revenue is recognized on this basis, as this is the best estimate of amounts earned over the period these services are performed. Revenue is constrained by actual costs incurred and any restrictions in the lease contracts.

Property management and ancillary services are considered non-lease components and within the scope of IFRS 15. The performance obligation for property management and ancillary services is satisfied over time. Rents charged to tenants, primarily at the Company’s residential properties are generally charged on a gross basis, inclusive of property management and ancillary services.

The Company applies judgment about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. If a contract is identified as containing more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach.

Revenue from Hotel Properties

Revenue from hotel properties relates to all revenue received from guests by owned hotels. The services rendered, including room rentals, food and beverage sales and other ancillary services, are distinct performance obligations, for which prices invoiced to the guests are representative of their standalone selling prices. These obligations are fulfilled over time when they relate to room rentals, that is over the stay within the hotel, and at a point in time for other goods or services, when they have been delivered or rendered.

Management and Advisory Fees
The Company provides management and advisory services to co-owners, partners and third parties for which it earns market-based fees. Management and advisory fees are primarily property and asset management revenue streams, which include base property and asset management fees, leasing fees, acquisition and disposition fees, project and development fees, and various other consulting fees.

Fees for base property and asset management services, and project and development services are generally recognized as revenue over the period of performance of those services, when the property owners simultaneously receive and consume the benefits provided. The Company elects the practical expedient to recognize revenue based on amounts invoiced to the customer, when this method of measuring progress best depicts the performance provided. Invoicing is based on contractual prices, which represent the standalone selling prices of specified promised services. Variable consideration depending on the occurrence of uncertain future events are estimated using the most likely amount method, based on all reasonably available information, and are, if need be, capped at the minimum amount considered as highly probable.

Leasing service fees, acquisition and disposition service fees and various other consulting service fees are recognized as revenue in the period in which the service is received by the customer. Amounts are determined and revenue is recognized based on the agreed transaction price in each contract.

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

In accordance with IAS 12, *Income Taxes* (“IAS 12”), the Company measures deferred tax assets and liabilities on its real estate and hotel properties based on the rebuttable presumption that the carrying amount of the property is recovered through sale, as opposed to presuming that the economic benefits of the property will be substantially consumed through use over time. This presumption is rebutted if the property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale, which is not the case for the Company.

Employee Future Benefits
The Company provides pensions to certain of its employees under two defined benefit arrangements and recognizes the cost of the defined benefit plans in the period in which the employee has rendered services. The cost of benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service, compensation increases, retirement ages of employees and future termination levels. No past service costs have been incurred under these plans. Actuarial gains and losses are recognized in full in the period in which they occur and are presented in the consolidated statements of comprehensive income. The current service cost and gains and losses on settlement and curtailments are charged to operating income. The discount rate used to calculate net pension obligations or assets is determined on the basis of current market rates for high-quality corporate bonds and is re-evaluated at each year-end.

Stock-Based Compensation
The Company has a stock appreciation rights (“SARs”) plan, which entitles specified officers and directors of Morguard to receive a cash payment equal to the excess of the market price of Morguard's common shares at the time of exercise over the grant date price of the right. The Company accounts for the SARs plan using the fair value method. Under this method, compensation expense for the SARs plan is measured at the fair value of the vested portion using the Black-Scholes option pricing model at each consolidated balance sheet date. The liability is measured at each reporting date at fair value, with changes in the liability recorded in the consolidated statements of income.

Income Per Common Share

Basic income per common share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding in each respective period. Diluted income per common share is calculated by dividing net income attributable to common shareholders, adjusted for the effect of dilutive securities, by the weighted average number of diluted shares outstanding.

Foreign Exchange

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

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

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at December 31	**$0.7699**	$0.7330
- Average during the year ended December 31	**0.7536**	0.7718
United States dollar to Canadian dollar exchange rates:		
- As at December 31	**1.2988**	1.3642
- Average during the year ended December 31	**1.3269**	1.2957

Reportable Operating Segments

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

Critical Judgments in Applying Accounting Policies

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

De Facto Control

The Company's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining when the Company controls an investment even if the Company holds less than a majority of the investee's voting rights (the existence of *de facto* control). The key assumptions in determining when the Company controls an investment on the basis of *de facto* control are further defined in Note 4.

Real Estate Properties

The Company's accounting policies relating to real estate properties are described above. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and tenant improvements and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. The key assumptions in the valuation of the Company's real estate properties are further defined in Note 5.

Business Combinations

Accounting for business combinations under IFRS 3, *Business Combination*, ("IFRS 3") applies only if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purposes of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Company. A business generally consists of inputs, processes applied to those inputs and resulting outputs that are or will be used to generate revenue. Judgment is used by management in determining if the acquisition of an individual property qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of a real estate or hotel property or a portfolio of properties is a business combination or an asset acquisition, the Company applies judgment when considering whether the property or properties are acquired with significant processes.

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

Critical Accounting Estimates and Assumptions

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

In determining estimates of fair market value and net realizable values for the Company's real estate properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of real estate properties are outlined in Note 5.

Property and equipment and investments in joint arrangements are assessed for impairment. Significant assumptions are used in the assessment of fair value and impairment including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount rate, appropriate growth rates (revenues and costs) and changes in market valuation parameters. Management considers various factors in its assessment including the historical performance of property and equipment and investments in joint arrangements, expected trends in each specific market as well as local and macroeconomic conditions. The critical estimates and assumptions underlying the valuation of hotel properties are outlined in Note 6.

The estimated useful lives and related amortization method are determined for each component of hotel properties. The selected amortization method and estimate of useful life impact the amount of amortization expense recognized. In establishing useful lives and related amortization method, management considers its capital maintenance plans.

The fair value of financial instruments approximates amounts at which these instruments could be exchanged between market participants at the measurement date. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. The Company estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using market rates for debts of similar terms.

NOTE 3
ADOPTION OF ACCOUNTING STANDARDS
Current Accounting Policy Changes
IFRS 16, *Leases*
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, *Leases* ("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. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. 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 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 December 31, 2019, the Company owned a 44.8% (2018 - 46.9%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units (2018 - 6,675,166 Units) and 17,223,090 Class B LP Units (2018 - 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”). The basis for concluding that the Company continues to control Morguard Residential REIT is as follows: (i) the Company holds a significant interest in Morguard Residential REIT’s voting rights as at December 31, 2019; (ii) there is a wide dispersion of the public holdings of Morguard Residential REIT’s remaining Units; (iii) the Company has the ability to nominate a minimum number of Morguard Residential REIT’s trustees based on the Company's ownership interest; (iv) all of Morguard Residential REIT’s senior management are employees of the Company; and (v) Morguard Residential REIT is significantly dependent on the Company as a result of existing service agreements that cover property management, asset management, debt financing and acquisitions.

During the year ended December 31, 2019, Morguard Residential REIT recorded distributions of $24,527, or $0.6826 per Unit (2018 - $22,355, or $0.6632 per Unit), of which $4,919 was paid to the Company (2018 - $4,427) and $19,608 was paid to the remaining Unitholders (2018 - $17,928). In addition, during the year ended December 31, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $11,756 (2018 - $11,422).

Morguard Real Estate Investment Trust (“Morguard REIT” or “MRT”)

As at December 31, 2019, the Company owned 35,520,482 Units (2018 - 34,957,041 Units) of Morguard REIT, which represents a 58.5% (2018 - 57.6%) ownership interest.

During the year ended December 31, 2019, Morguard REIT recorded distributions of $58,283, or $0.96 per Unit (2018 - $58,276, or $0.96 per Unit), of which $33,750 was paid to the Company (2018 - $32,790) and $24,533 was paid to the remaining Unitholders (2018 - $25,486).

Temple Hotels Inc. (“Temple”)

As at December 31, 2019, the Company owned 54,492,911 common shares (2018 - 14,685,907 common shares) of Temple, which represents a 72.6% (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 13).

As at December 31			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Non-current assets	**$2,914,709**	**$2,979,179**	**$443,789**	$2,938,915	$2,973,694	$484,730
Current assets	**21,127**	**54,248**	**20,681**	38,153	37,775	26,345
Total assets	**$2,935,836**	**$3,033,427**	**$464,470**	$2,977,068	$3,011,469	$511,075
Non-current liabilities	**$1,093,403**	**$1,729,489**	**$128,844**	$1,096,488	$1,699,959	$178,507
Current liabilities	**318,289**	**78,145**	**255,036**	319,607	183,649	296,536
Total liabilities	**$1,411,692**	**$1,807,634**	**$383,880**	$1,416,095	$1,883,608	$475,043
Equity	**$1,524,144**	**$1,225,793**	**$80,590**	$1,560,973	$1,127,861	$36,032
Non-controlling interest	**$634,841**	**$676,895**	**$22,056**	$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 years ended December 31			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	**$273,074**	**$245,596**	**$155,756**	$276,473	$241,368	$165,809
Expenses	**(178,268)**	**(198,366)**	**(192,558)**	(177,045)	(210,428)	(202,722)
Fair value gain (loss) on real estate properties, net	**(73,850)**	**55,977**	**—**	(18,602)	180,283	—
Fair value loss on Class B LP Units	**—**	**(23,079)**	**—**	—	(36,513)	—
Net income (loss) for the year	**$20,956**	**$80,128**	**($36,802)**	$80,826	$174,710	($36,913)
Non-controlling interest	**$9,009**	**$44,247**	**($11,014)**	$35,650	$92,755	($15,258)

For the years ended December 31			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Cash provided by operating activities	**$89,358**	**$62,483**	**$8,024**	$93,474	$59,947	$11,332
Cash used in investing activities	**(36,419)**	**(67,831)**	**(4,571)**	(70,820)	(44,981)	(6,915)
Cash provided by (used in) financing activities	**(57,808)**	**6,072**	**(7,966)**	(26,754)	(23,422)	(699)
Net increase (decrease) in cash during the year	**($4,869)**	**$724**	**($4,513)**	($4,100)	($8,456)	$3,718

NOTE 5
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at December 31	2019	2018
Income producing properties	**$10,074,175**	$9,511,302
Properties under development	**43,650**	56,717
Land held for development	**83,458**	77,577
	$10,201,283	$9,645,596

Reconciliation of the carrying amounts for real estate properties at the beginning and end of the current financial year 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:				
Acquisitions	**320,061**	**—**	**—**	**320,061**
Capital expenditures	**60,555**	**—**	**—**	**60,555**
Development expenditures	**—**	**49,891**	**154**	**50,045**
Tenant improvements, incentives and leasing commissions	**18,207**	**—**	**—**	**18,207**
Transfers	**61,948**	**(61,948)**	**—**	**—**
Transfer from equity-accounted investments (Note 8(a))	**172,597**	**—**	**—**	**172,597**
Dispositions	**(89,342)**	**—**	**(494)**	**(89,836)**
Adoption of IFRS 16 (Note 3)	**153,610**	**—**	**—**	**153,610**
Fair value gain (loss), net	**19,643**	**(61)**	**7,067**	**26,649**
Foreign currency translation	**(144,267)**	**(949)**	**(846)**	**(146,062)**
Other	**(10,139)**	**—**	**—**	**(10,139)**
Balance as at December 31, 2019	**$10,074,175**	**$43,650**	**$83,458**	**$10,201,283**

Transactions completed during the year ended December 31, 2019

Acquisitions

The following table presents a summary of the Company's acquisitions and their purchase price, including transaction costs.

Date of Acquisition	Ownership	Asset Type	Location	Apartment Suites	Commercial Square Feet	Purchase Price
May 22, 2019[1]	8.3%	Residential	Mississauga, ON	80	—	$—
July 24, 2019	100%	Office	Ottawa, ON	—	157,000	53,130
December 9, 2019	51%	Residential	Chicago, IL	352	—	180,237
December 19, 2019[2]	50%	Office	Mississauga, ON	—	398,500	86,694
				432	**555,500**	**$320,061**

[1] On May 22, 2019, the Company acquired partial interests in three multi-suite residential 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.

[2] The total purchase price of the office acquisition is $96,138, including closing costs, of which $9,444 has been allocated to capital assets (Note 9) relating to owner occupied space, based on square feet.

Dispositions

On February 1, 2019, the Company sold a multi-suite residential 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 multi-suite residential 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 multi-suite residential 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 multi-suite residential 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 multi-suite residential property located in Harahan, Louisiana, comprising 48 suites, for gross proceeds of $4,428 (US$3,298), including closing costs, 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 an industrial property located in Victoriaville, Québec, for net proceeds of $90.

On July 31, 2019, the Company sold its 50% interest in an industrial property, consisting of 242,521 square feet located in Salaberry-de-Valleyfield, Québec, for net proceeds of $15,914.

On December 30, 2019, the Company sold a retail property and an adjacent parcel of land classified as held for development located in Alexandria, Louisiana, comprising 167,500 square feet, for net proceeds of $10,023 (US$7,717).

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 and investments	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

Transactions Completed During the Year Ended December 31, 2018

Acquisitions

The following table presents a summary of the Company's acquisitions and their purchase price, including transaction costs.

Date of Acquisition	Ownership	Asset Type	Location	Apartment Suites	Commercial Square Feet	Purchase Price
January 9, 2018	100%	Industrial	Ottawa, ON	—	243,000	$43,422
February 5, 2018	100%	Office	Mississauga, ON	—	128,000	51,711
April 5, 2018	100%	Residential	New Orleans, LA	116	—	14,866
June 18, 2018	100%	Residential	Boynton Beach, FL	226	—	64,176
June 20, 2018	100%	Residential	Boynton Beach, FL	125	—	25,748
August 17, 2018 (1)	100%	Office	Gatineau, QC	—	134,000	60,615
September 24, 2018	100%	Residential	Boynton Beach, FL	1	—	144
October 18, 2018	49.9%	Office	Ottawa, ON	—	552,000	94,854
				468	1,057,000	$355,536

(1) The Company assumed mortgage payable of $32,264 in connection with the acquisition of the property.

Dispositions

On July 10, 2018, the Company sold a retail property located in Harahan, Louisiana, comprising 44,000 square feet, for net proceeds of $3,699 (US$2,834).

On November 28, 2018, the Company sold its 50% interest in an office property located in Saint John, New Brunswick, comprising 158,000 square feet, for net proceeds of $1,500.

During the year ended December 31, 2018, the Company sold three parcels of land for $4,519.

Capitalization Rates

As at December 31, 2019, and 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.

As at December 31, 2019, 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 8.5% (2018 - 3.5% to 12.0%), resulting in an overall weighted average capitalization rate of 5.5% (2018 - 5.3%).

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

As at	December 31, 2019					December 31, 2018				
	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%**	**8.5%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**6.8%**	**5.0%**	**5.2%**	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	December 31, 2019			December 31, 2018		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.3%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**8.5%**	**5.3%**	**5.9%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.5%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**6.5%**	**6.0%**	**6.1%**	7.3%	6.0%	6.5%
Terminal cap rate	**6.0%**	**5.0%**	**5.4%**	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 December 31, 2019, would decrease by $432,779 and increase by $476,591, respectively.

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

As at	December 31, 2019		December 31, 2018	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($246,954)**	**$275,369**	($241,337)	$270,194
Retail	**(89,687)**	**96,807**	(94,615)	102,416
Office	**(89,194)**	**96,766**	(84,780)	92,160
Industrial	**(6,944)**	**7,649**	(6,266)	6,826
	($432,779)	**$476,591**	($426,998)	$471,596

NOTE 6
HOTEL PROPERTIES

Hotel properties consist of the following:

As at December 31, 2019	**Cost**	**Accumulated Impairment Provision**	**Accumulated Amortization**	**Net Book Value**
Land	**$97,111**	**($2,407)**	**$—**	**$94,704**
Buildings	**591,227**	**(67,524)**	**(47,343)**	**476,360**
Furniture, fixtures, equipment and other	**110,904**	**(7,250)**	**(47,473)**	**56,181**
Right-of-use asset - land lease	**1,596**	**—**	**(58)**	**1,538**
	$800,838	**($77,181)**	**($94,874)**	**$628,783**

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 year ended December 31, 2019, are summarized as follows:

As at December 31, 2019	**Opening Net Book Value**	**Adoption of IFRS 16 (Note 3)**	**Additions**	**Impairment Provision**	**Disposition**	**Amortization**	**Closing Net Book Value**
Land	**$94,704**	**$—**	**$—**	**$—**	**$—**	**$—**	**$94,704**
Buildings	**510,077**	**—**	**5,834**	**(21,142)**	**(4,982)**	**(13,427)**	**476,360**
Furniture, fixtures, equipment and other	**61,297**	**—**	**12,042**	**(1,781)**	**(960)**	**(14,417)**	**56,181**
Right-of-use asset - land lease	**—**	**2,280**	**—**	**—**	**(684)**	**(58)**	**1,538**
	$666,078	**$2,280**	**$17,876**	**($22,923)**	**($6,626)**	**($27,902)**	**$628,783**

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 12, 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 21). 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).

The Company identified each hotel property as a cash-generating unit for impairment purposes. The recoverable amounts of the hotel properties have been estimated using the value-in-use method or fair value less costs to sell. Under these calculations, discount rates are applied to the forecasted cash flows reflecting the assumptions for hotel activity. The key assumptions are the first year net operating income and the discount rate applied over the useful life of the hotel property. IFRS permits an impairment provision to be reversed in the subsequent accounting periods if recoverability analysis at that time supports reversal.

During the year ended December 31, 2019, impairment indicators were identified including decreases in occupancy at certain hotel properties. A recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of $22,923 should be recorded. The table below provides details of first year net operating income and the discount rates used for valuing the hotel properties.

	Clearwater Timberlea	Clearwater Suites Hotel	Nomad Hotel & Suites	Vantage	Radisson	Merit	Days Hotel	Wingate by Wyndham
Recoverable amount	$5,600	$9,600	$3,280	$4,150	$12,060	$8,000	$6,400	$8,900
Impairment provision	$1,469	$7,030	$4,098	$1,396	$993	$2,880	$1,782	$3,275
Cumulative impairment provision	$2,497	$8,140	$8,216	$3,893	$2,230	$3,719	$1,782	$7,207
Projected first year net operating income (loss)	$376	$435	($540)	$108	$272	$319	($23)	$125
Discount rate	9.3%	10.8%	12.0%	11.5%	10.0%	11.5%	12.0%	9.5%

NOTE 7
CO-OWNERSHIP INTERESTS

The Company is a co-owner in several properties that are subject to joint control based on the Company's decision-making authority with regards to the relevant activities of the properties. These co-ownerships have been classified as joint operations and, accordingly, the Company recognizes its rights to and obligation for these assets, liabilities, revenue and expenses of these co-ownerships in the respective lines in the consolidated financial statements.

The following are the Company's significant co-ownerships as at December 31, 2019, and 2018:

			Company's Ownership	
Jointly Controlled Asset	**Location**	**Asset Type**	**December 31, 2019**	December 31, 2018
Bramalea City Centre	Brampton, ON	Retail	**20.7%**	20.7%
Woodbridge Square	Woodbridge, ON	Retail	**50.0%**	50.0%
77 Bloor Street West	Toronto, ON	Office	**50.0%**	50.0%
65 Overlea Boulevard	Toronto, ON	Office	**95.0%**	95.0%
Mississauga City Centre[1]	Mississauga, ON	Office	**—**	50.0%
2920 Matheson Boulevard	Mississauga, ON	Office	**50.0%**	50.0%
Performance Court	Ottawa, ON	Office	**50.0%**	50.0%
Standard Life Centre	Ottawa, ON	Office	**50.0%**	50.0%
Heritage Place	Ottawa, ON	Office	**50.0%**	50.0%
Jean Edmonds Towers	Ottawa, ON	Office	**49.9%**	49.9%
Scotia Place	Edmonton, AB	Office	**20.0%**	20.0%
505 Third Street	Calgary, AB	Office	**50.0%**	50.0%
7474 McLean Road	Puslinch, ON	Industrial	**50.0%**	50.0%
825 Des Érables[2]	Salaberry-de-Valleyfield, QC	Industrial	**—**	50.0%
Toronto Airport Marriott	Toronto, ON	Hotel	**94.8%**	94.8%

(1) On December 18, 2019, the Company acquired the 50% co-ownership interest (Note 5).
(2) On July 31, 2019, the Company sold its 50% co-ownership interest (Note 5).

The following amounts, included in these consolidated financial statements, represent the Company's proportionate share of the assets and liabilities of the Company's co-ownership interests as at December 31, 2019, and 2018, and the results of operations for the years ended December 31, 2019, and 2018:

As at December 31	**2019**	2018
Assets	**$918,622**	$1,016,638
Liabilities	**$257,658**	$295,542

For the years ended December 31	2019	2018
Revenues	**$115,054**	$108,933
Expenses	**(76,635)**	(72,120)
Income before fair value adjustments	**38,419**	36,813
Fair value loss on real estate properties	**(11,284)**	(2,088)
Net income	**$27,135**	$34,725

NOTE 8
EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at December 31	2019	2018
Joint ventures	**$53,118**	$52,803
Associates	**85,835**	124,677
Equity-accounted investments	**138,953**	177,480
Other real estate fund investments	**109,712**	103,984
Equity-accounted and other fund investments	**$248,665**	$281,464

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

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$23,705**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**2,994**	7,031
Greypoint Capital L.P.(1)	Toronto, ON	Joint Venture	Other	**22.6%**	36.4%	**12,028**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**9,595**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,796**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**63,803**	52,646
Marquee at Block 37(2)	Chicago, IL	Associate	Residential	**—**	49.0%	**—**	53,476
MIL Industrial Fund II LP(3)	Various	Associate	Industrial	**18.8%**	18.8%	**22,032**	18,555
						$138,953	$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 acquired the 51% interest not already owned in the Marquee at Block 37 on December 9, 2019 (Note 5).
(3) 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 December 31	2019	2018
Balance, beginning of year	**$177,480**	$187,365
Additions	**64,914**	7,786
Transfer(1)	**(63,504)**	—
Share of net loss	**(28,825)**	(22,654)
Distributions received	**(6,778)**	(4,472)
Foreign exchange gain (loss)	**(4,334)**	9,455
Balance, end of year	**$138,953**	$177,480

(1) The Company acquired the 51% interest not already owned in the Marquee at Block 37 on December 9, 2019, at which point the carrying value of the 49% interest was transferred to each respective balance sheet line item including: income producing properties $172,597 (Note 5) and mortgages payable $109,189.

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

As at December 31		2019				2018
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Non-current assets	**$193,504**	**$354,148**	**$547,652**	$206,391	$778,155	$984,546
Current assets	**63,988**	**12,237**	**76,225**	29,438	9,756	39,194
Total assets	**$257,492**	**$366,385**	**$623,877**	$235,829	$787,911	$1,023,740
Non-current liabilities	**$64,007**	**$32,584**	**$96,591**	$116,410	$343,393	$459,803
Current liabilities	**56,967**	**108,861**	**165,828**	8,720	116,734	125,454
Total liabilities	**$120,974**	**$141,445**	**$262,419**	$125,130	$460,127	$585,257
Net assets	**$136,518**	**$224,940**	**$361,458**	$110,699	$327,784	$438,483
Equity-accounted investments	**$53,118**	**$85,835**	**$138,953**	$52,803	$124,677	$177,480

For the years ended December 31		2019				2018
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$35,352**	**$43,905**	**$79,257**	$35,043	$36,309	$71,352
Expenses	**(26,917)**	**(41,043)**	**(67,960)**	(23,803)	(36,357)	(60,160)
Fair value loss on real estate properties, net	**(12,368)**	**(65,427)**	**(77,795)**	(6,750)	(46,515)	(53,265)
Net income (loss) for the year	**($3,933)**	**($62,565)**	**($66,498)**	$4,490	($46,563)	($42,073)
Income (loss) in equity-accounted investments	**($2,708)**	**($26,117)**	**($28,825)**	$1,868	($24,522)	($22,654)

(b) Income Recognized from Other Fund Investments:

Other Real Estate Fund Investments

For the years ended December 31	2019	2018
Distribution income	**$2,920**	$2,885
Fair value gain for the year (Note 20)	**7,086**	2,222
Income from other real estate fund investments	**$10,006**	$5,107

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 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.

The underlying assets are appraised using a number of approaches that principally include a discounted cash flow analysis or a direct capitalization of income method. Using the direct capitalization approach, fund properties were valued using capitalization rates in the range of 4.3% to 5.3% (2018 - 4.0% - 5.3%), resulting in an overall weighted average capitalization rate of 4.5% (2018 - 4.5%). Under the discounted cash flow method, fund properties were valued using discount rates in the range of 6.1% to 7.2% (2018 - 6.2% - 7.8%), resulting in an overall weighted average discount rate of 6.7% (2018 - 6.8%) and terminal cap rates in the range of 4.9% to 5.9% (2018 - 5.0% - 5.9%), resulting in an overall weighted average terminal cap rate of 5.4% (2018 - 5.4%).

NOTE 9
OTHER ASSETS

Other assets consist of the following:

As at December 31	2019	2018
Accrued pension benefit asset (Note 26)	**$83,554**	$73,981
Goodwill	**24,488**	24,488
Capital assets, net	**20,435**	11,729
Right-of-use asset - office lease (Note 3)	**2,603**	—
Intangible assets, net	**36,501**	39,749
Inventory	**3,016**	3,199
Inventory - development properties	**451**	444
Finance lease receivable	**56,574**	55,941
Investment in marketable securities	**142,911**	38,606
Restricted cash	**30,449**	36,117
Other	**519**	849
	$401,501	$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.

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

As at December 31	2019	2018
Within 12 months	**$3,256**	$3,193
2 to 5 years	**17,285**	16,946
Over 5 years	**167,932**	171,527
Total minimum lease payments	**188,473**	191,666
Less: Future finance income	**(131,899)**	(135,725)
Present value of minimum lease payments	**$56,574**	$55,941

NOTE 10
MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at December 31	2019	2018
Mortgages payable	**$4,375,947**	$4,369,811
Mark-to-market adjustments, net	**11,948**	17,455
Deferred financing costs	**(22,616)**	(24,565)
	$4,365,279	$4,362,701
Current	**$583,611**	$789,516
Non-current	**3,781,668**	3,573,185
	$4,365,279	$4,362,701
Range of interest rates	**2.25 - 8.95%**	2.25 - 8.95%
Weighted average contractual interest rate	**3.80%**	3.87%
Estimated fair value of mortgages payable	**$4,406,348**	$4,428,532

The aggregate principal repayments and balances maturing of the mortgages payable as at December 31, 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
2020	$109,167	$473,949	$583,116	4.96%
2021	104,916	391,205	496,121	4.38%
2022	100,616	406,905	507,521	3.55%
2023	78,008	642,451	720,459	3.57%
2024	53,376	323,966	377,342	3.75%
Thereafter	214,437	1,476,951	1,691,388	3.53%
	$660,520	$3,715,427	$4,375,947	3.80%

The Company's first mortgages are registered against specific real estate assets and hotel properties. As at December 31, 2019, mortgages payable mature between 2020 and 2058 and have a weighted average term to maturity of 5.1 years (2018 - 5.2 years) and approximately 94% of the Company's mortgages have fixed interest rates.

As at December 31, 2019, 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 December 31, 2019, Temple was not in compliance with five (2018 - seven) debt service covenants affecting five (2018 - seven) mortgage loans amounting to $80,877 (2018 - $104,525). None of the lenders have 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 $46,501 scheduled to retire after December 31, 2020.

Subsequent to December 31, 2019, the Company repaid three mortgage loans with an aggregate principal balance of $35,549, secured against four properties. The repayment resolves three of the five mortgage loans currently in default noted above.

NOTE 11
UNSECURED DEBENTURES

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

As at December 31	Maturity Date	Coupon Interest Rate	2019	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**	—
Series F senior unsecured debentures	November 27, 2024	4.204%	**225,000**	—
Unamortized financing costs			**(3,556)**	(2,303)
			$1,046,444	$597,697
Current			**$199,778**	$—
Non-current			**846,666**	597,697
			$1,046,444	$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%.

On November 27, 2019, the Company issued $225,000 (net proceeds including issuance costs - $224,000) of Series F senior unsecured debentures due on November 27, 2024. Interest on the Series F senior unsecured debentures is payable semi-annually, not in advance, on May 27 and November 27 of each year, commencing on May 27, 2020. The Company has the option to redeem the Series F 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 0.675%.

For the year ended December 31, 2019, interest on the Unsecured Debentures of $35,651 (2018 - $27,063) is included in interest expense (Note 19).

NOTE 12
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	2019	2018
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**$112,105**	$110,166
Morguard Residential REIT[(1)]	March 31, 2023	$20.20	4.50%	$85,500	$5,000	**81,398**	79,769
Temple - Series E[(2)]		—	—	—	—	**—**	38,064
						$193,503	$227,999
Current						**$—**	$2,063
Non-current						**193,503**	225,936
						$193,503	$227,999

(1) As at December 31, 2019, the liability includes the fair value of the conversion option of $3,472 (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 year ended December 31, 2019, interest on convertible debentures net of accretion of $12,089 (2018 - $14,742) is included in interest expense (Note 19).

NOTE 13

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.

On August 28, 2019, Morguard Residential REIT completed an offering for 5,226,200 Units sold for a price of $19.75 per Unit for aggregate gross proceeds of $103,217. The net proceeds after underwriters' commission and other closing costs totalling $3,626, was $99,591. The Company purchased 1,269,000 of the Units offered amounting to $25,063.

As at December 31, 2019, the Company valued the non-controlling interest in the Morguard Residential REIT Units at $516,462 (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 year ended December 31, 2019 of $43,497 (2018 - $69,469) in the consolidated statements of income (Note 20).

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

For the years ended December 31	2019	2018
Fair value loss on Morguard Residential REIT Units	**($23,889)**	($51,541)
Distributions to external Unitholders (Note 4)	**(19,608)**	(17,928)
Fair value loss on Morguard Residential REIT Units	**($43,497)**	($69,469)

NOTE 14
LEASE LIABILITIES

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

As at December 31	2019	2018
Balance, beginning of year	**$9,754**	$8,970
Adoption of IFRS 16 (Note 3)	**161,614**	—
Interest on lease liabilities	**9,679**	—
Payments	**(11,778)**	—
Additions	**725**	—
Dispositions (Note 6)	**(684)**	—
Extinguishment[1]	**(2,664)**	—
Foreign exchange loss (gain)	**(502)**	784
Balance, end of year	**$166,144**	$9,754
Current (Note 15)	**$1,703**	$—
Non-current	**164,441**	9,754
	$166,144	$9,754
Weighted average borrowing rate	**5.72%**	4.96%

[1] On December 19, 2019, the Company acquired the remaining 50% interest in the underlying property where the Company has an office lease (Note 5). Since the property is now 100% owned, the lease liability and right-of-use asset (office lease) relating to the 50% interest previously not owned by the Company have been extinguished.

Future minimum lease payments under lease liabilities are as follows:

As at December 31	2019	2018
Within 12 months	**$11,127**	$425
2 to 5 years	**43,335**	1,868
Over 5 years	**364,195**	12,806
Total minimum lease payments	**418,657**	15,099
Less: future interest costs	**(252,513)**	(5,345)
Present value of minimum lease payments	**$166,144**	$9,754

NOTE 15
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at December 31	2019	2018
Accounts payable and accrued liabilities	**$185,904**	$185,921
Tenant deposits	**27,850**	26,260
SARs liability	**24,525**	20,105
Lease liability (Note 14)	**1,703**	—
Other	**2,691**	2,630
	$242,673	$234,916

NOTE 16
BANK INDEBTEDNESS

As at December 31, 2019, the Company has operating lines of credit totalling $374,000 (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 December 31, 2019, the maximum amount that can be borrowed on the operating lines of credit is $356,169 (2018 - $344,911) which includes deducting issued letters of credit in the amount of $13,790 (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 December 31, 2019, the Company had borrowed $101,100 (2018 - $225,160) on its operating lines of credit.

The bank credit agreements include certain restrictive undertakings by the Company. As at December 31, 2019, the Company is in compliance with all undertakings.

NOTE 17
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	**—**	**90**
Balance, December 31, 2019	**11,283**	**$102,426**

The Company had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 569,854 common shares. The program expired on September 21, 2019. On September 17, 2019, the Company obtained the approval of the TSX under its NCIB to purchase up to 564,117 common shares, being approximately 5% of the issued and outstanding common shares, and the program expires on September 21, 2020. The daily repurchase restriction for the common shares is 1,000. During the year ended December 31, 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 year ended December 31, 2019 amounted to $6,770, or $0.60 per common share (2018 - $6,842, or $0.60 per common share). On February 20, 2020, the Company declared a common share dividend of $0.15 per common share to be paid in the first quarter of 2020.

(b) Contributed Surplus
During the year ended December 31, 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 year ended December 31, 2018, the Company acquired 549,895 common shares of Temple for cash consideration of $1,457. The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the year ended December 31, 2018, amounted to $312 and the amount has been recorded within retained earnings.

During the year ended December 31, 2019, Temple purchased for cancellation 27,772 common shares (2018 - 247,584 common shares) for cash consideration of $49 (2018 - $711), and the amount has been recorded within retained earnings.

During the year ended December 31, 2019, the Company acquired 563,441 Units of Morguard REIT (2018 - 2,078,693 Units) for cash consideration of $6,616 (2018 - $26,518). The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the year ended December 31, 2019, amounted to $6,418 (2018 - $26,921) and the amount has been recorded within retained earnings.

During the year ended December 31, 2019, Morguard REIT purchased for cancellation nil Units (2018 - 37,100 Units) for cash consideration of $nil (2018 - $411) and the amount has been recorded within retained earnings.

During the year ended December 31, 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).

(c) Stock Appreciation Rights Plan

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

As at December 31, 2019					
Date of Grant	Exercise Price	Issued	Redeemed	Cancelled	Outstanding
March 20, 2008	$30.74	200,000	(64,000)	(53,500)	82,500
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**	**(68,000)**	**(69,500)**	**397,500**

During the year ended December 31, 2019, the Company recorded a fair value adjustment to increase compensation expense of $4,598 (2018 - $2,709). 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 15).

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 December 31, 2019: a dividend yield of 0.30% (2018 - 0.34%), expected volatility of approximately 21.91% (2018 - 21.29%) and the 10-year Bank of Canada Bond Yield of 1.61% (2018 - 1.98%).

(d) Accumulated Other Comprehensive Income

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

As at December 31	2019	2018
Actuarial gain on defined benefit pension plans	**$49,410**	$42,057
Unrealized foreign currency translation gain	**158,494**	231,297
	$207,904	$273,354

NOTE 18
REVENUE

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

For the years ended December 31	2019	2018
Rental income	**$486,450**	$472,259
Realty taxes and insurance	**134,347**	128,508
Common area maintenance recoveries	**104,804**	101,371
Property management and ancillary income	**146,622**	139,359
	$872,223	$841,497

The components of revenue from hotel properties are as follows:

For the years ended December 31	2019	2018
Room revenue	**$185,016**	$178,058
Other hotel revenue	**60,266**	59,880
	$245,282	$237,938

The components of management and advisory fees are as follows:

For the years ended December 31	2019	2018
Property and asset management fees	**$38,971**	$40,249
Other fees	**13,430**	21,847
	$52,401	$62,096

Included in property management and corporate expenses are services provided under third party managed contracts which are recoverable, amounting to $23,159 (2018 - $23,906).

NOTE 19
INTEREST EXPENSE

The components of interest expense are as follows:

For the years ended December 31	2019	2018
Interest on mortgages	**$163,812**	$159,717
Interest on Unsecured Debentures (Note 11)	**35,651**	27,063
Interest on convertible debentures, net of accretion (Note 12)	**12,089**	14,742
Interest on bank indebtedness	**5,089**	6,275
Interest on construction loans	**—**	756
Interest on loans payable and other	**2,810**	3,726
Interest on lease liabilities (Note 14)	**9,679**	389
Amortization of mark-to-market adjustments on mortgages, net	**(5,501)**	(7,480)
Amortization of deferred financing costs	**7,268**	6,971
Loss on extinguishment of mortgages payable	**561**	—
	231,458	212,159
Less: Interest capitalized to properties under development	**(563)**	(1,695)
	$230,895	$210,464

NOTE 20
FAIR VALUE GAIN, NET

The components of fair value gain are as follows:

For the years ended December 31	2019	2018
Fair value gain on real estate properties, net	**$27,057**	$238,973
Financial assets (liabilities):		
Fair value loss on conversion option of MRG convertible debentures (Note 12)	**(1,003)**	(1,587)
Fair value loss on MRG Units (Note 13)	**(43,497)**	(69,469)
Fair value gain on other real estate fund investments (Note 8(b))	**7,086**	2,222
Fair value gain (loss) on investment in marketable securities	**18,088**	(2,904)
Total fair value gain, net	**$7,731**	$167,235

NOTE 21
OTHER INCOME

The components of other income are as follows:

For the years ended December 31	2019	2018
Foreign exchange gain	**$588**	$9,298
Gain on sale of hotel property (Note 6)	**508**	—
Gain on finance lease	**—**	2,692
Other income	**1,739**	1,434
	$2,835	$13,424

NOTE 22
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 8 and 11, 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 December 31, 2019 was $nil (2018 - $12,500). During the year ended December 31, 2019, the Company incurred net interest expense of $71 (2018 - $28).

(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 year ended December 31, 2019, the Company received a management fee of $1,305 (2018 - $1,439), and paid rent and operating expenses of $730 (2018 - $680).

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 December 31, 2019 was $33,679 (2018 - $47,809). During the year ended December 31, 2019, the Company paid net interest of $1,489 (2018 - $238).

(c) Share/Unit Purchase and Other Loans

As at December 31, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,504 (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 December 31, 2019, the fair market value of the common shares/Units held as collateral is $101,756.

(d) Key Management Compensation

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company's key management personnel include the Chairman and Chief Executive Officer, Chief Financial Officer, Executive Vice President, Retail Asset Management (MIL), and Senior Vice President, Office/Industrial Asset Management (MIL).

The compensation paid or payable to key management for employee services is shown below:

For the years ended December 31	2019	2018
Salaries and other short-term employee benefits	**$4,478**	$6,635
SARs	**1,103**	697
	$5,581	$7,332

NOTE 23
INCOME TAXES
(a) Income Tax Expense:

For the years ended December 31	2019	2018
Income before income taxes	**$225,491**	$416,068
Statutory rate	**26.5%**	26.5%
Income taxes at the Canadian and provincial income tax rate	**$59,755**	$110,258
Increase (decrease) in income taxes due to:		
Non-deductible (non-taxable) items	**(195)**	5,243
Non-taxable income of Morguard Residential REIT and Morguard REIT	**(23,013)**	(39,466)
Impact of ownership change in Morguard Residential REIT and Morguard REIT	**—**	9,889
Impact of subsidiary tax rate differential	**1,324**	(508)
Impact of change in tax rates	**(8,363)**	—
Non-recognition of the benefit of tax losses	**8,838**	8,120
Recognition of previously unrecognized benefit of tax losses	**(2,414)**	(1,952)
Adjustments to income tax estimates	**—**	(17,968)
Other	**763**	(1,606)
Income tax expense	**$36,695**	$72,010

(b) The Major Components of Deferred Tax Liabilities and Movements:

	December 31, 2018	Net income	Recognized in OCI	Equity and other	December 31, 2019
Real estate properties	$691,660	**$41,172**	**($10,355)**	**$—**	**$722,477**
Investments	9,301	**(19,346)**	**—**	**(904)**	**(10,949)**
Pension assets	19,067	**1,707**	**2,472**	**—**	**23,246**
Other	(2,085)	**1,740**	**(643)**	**—**	**(988)**
Total net deferred tax liabilities	$717,943	**$25,273**	**($8,526)**	**($904)**	**$733,786**

	December 31, 2017	Net income	Recognized in OCI	Equity and other	December 31, 2018
Real estate properties	$604,198	$70,934	$16,528	$—	$691,660
Investments	17,291	(7,990)	(7,914)	7,914	9,301
Pension assets	22,681	(1,818)	(1,796)	—	19,067
Other	2,714	(4,332)	(467)	—	(2,085)
Total net deferred tax liabilities	$646,884	$56,794	$6,351	$7,914	$717,943

(c) The Company's Tax Losses:

As at December 31, 2019, the Company's U.S. subsidiaries have total net operating losses of approximately US$81,266 (2018 - US$84,395) of which no deferred tax assets were recognized in respect of US$68,362 (2018 - US$76,456) net operating losses as it is not probable that taxable income will be available against which they can be utilized. The net operating losses expire in varying years commencing 2030. As at December 31, 2019, the Company's U.S. subsidiaries have US$12,904 (2018 - US$7,939) net operating losses of which deferred tax assets were recognized. The Company's U.S. subsidiaries have a total of US$14,329 (2018 - US$13,124) of unutilized interest expense deductions, of which deferred tax assets were recognized.

As at December 31, 2019, the Company's Canadian subsidiaries have total net operating losses of approximately $205,433 (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 2022. As at December 31, 2019, the Company has other Canadian temporary differences, of which no deferred tax asset was recognized for approximately $43,952 (2018 - $26,360). These other temporary differences have no expiration date.

(d) Other Temporary Differences:

As at December 31, 2019, the temporary differences associated with investments in subsidiaries and joint ventures, for which the deferred tax liability has not been recognized, amount to $268,893 (2018 - $274,810).

NOTE 24
NET INCOME PER COMMON SHARE

For the years ended December 31	2019	2018
Net income attributable to common shareholders	**$186,939**	$319,851
Weighted average number of common shares outstanding (000s) - basic and diluted	**11,285**	11,438
Net income per common share - basic and diluted	**$16.57**	$27.96

NOTE 25
CONSOLIDATED STATEMENTS OF CASH FLOWS
(a) Items Not Affecting Cash

For the years ended December 31	2019	2018
Fair value gain on real estate properties, net	**($26,912)**	($239,497)
Fair value loss on conversion option of MRG convertible debentures (Note 20)	**1,003**	1,587
Fair value loss on MRG Units (Note 13)	**23,889**	51,541
Fair value gain on other real estate investment funds (Note 20)	**(7,086)**	(2,222)
Fair value loss (gain) on investment in marketable securities (Note 20)	**(18,088)**	2,904
Equity loss from investments	**28,825**	22,654
Amortization of hotel properties	**27,902**	25,342
Amortization of capital assets and other	**8,250**	6,518
Amortization of deferred financing costs (Note 19)	**7,268**	6,971
Amortization of mark-to-market adjustments on mortgages, net (Note 19)	**(5,501)**	(7,480)
Loss on extinguishment of mortgages payable (Note 19)	**561**	—
Amortization of tenant incentive	**2,084**	1,643
Stepped rent - adjustment for straight-line method	**793**	(2,742)
Deferred income taxes	**25,273**	56,794
Accretion of convertible debentures	**2,516**	2,401
Gain on sale of hotel property (Note 21)	**(508)**	—
Gain on finance lease (Note 21)	**—**	(2,692)
Provision for impairment	**22,923**	29,668
	$93,192	($46,610)

(b) Net Change in Operating Assets and Liabilities

For the years ended December 31	2019	2018
Amounts receivable	**($260)**	$2,902
Prepaid expenses and other	**3,231**	5,976
Accounts payable and accrued liabilities	**(1,795)**	(7,281)
Net change in operating assets and liabilities	**$1,176**	$1,597

(c) Supplemental Cash Flow Information

For the years ended December 31	2019	2018
Interest paid	**$241,455**	$217,716
Interest received	**5,478**	4,230
Income taxes paid	**22,905**	20,266

During the year ended December 31, 2019, the Company issued non-cash dividends under the distribution reinvestment plan of $90 (2018 - $139).

(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 year	$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	(110,771)	—	—	(2,099)	(91,996)	(504,404)	(709,270)
New financing, net	472,706	447,575	—	725	69,212	380,344	1,370,562
Lump-sum repayments	(371,260)	—	(39,636)	—	—	—	(410,896)
Non-cash changes	78,581	1,172	5,140	(3,348)	—	—	81,545
Foreign exchange	(66,678)	—	—	(502)	(3,846)	—	(71,026)
Balance, December 31, 2019	**$4,365,279**	**$1,046,444**	**$193,503**	**$166,144**	**$33,679**	**$101,100**	**$5,906,149**

NOTE 26
EMPLOYEE FUTURE BENEFITS

The Company maintains a non-contributory defined benefit pension plan covering certain employees under the Morguard Corporation Employee Retirement Plan (the “Morguard Plan”). This plan provides benefits based on length of service and final average earnings. There is only one active member since the majority of members were employed in the Company’s industrial products distribution business, which was sold in 1996. The pension obligations and related assets for the former employees remain part of the Company’s defined benefit pension plan. The most recent actuarial valuation for the Morguard Plan was as at December 31, 2017.

Effective January 1, 2008, the Morguard Plan was amended and restated in its entirety to consist of the existing defined benefit provisions and new defined contribution provisions. Employees who accrued benefits under the Morguard Plan on December 31, 2007, will continue to participate in the defined benefit provisions of the Morguard Plan on and after January 1, 2008, and are not eligible to participate in the new defined contribution provisions. New employees of the Company participate under the defined contribution provisions upon completion of the applicable waiting period effective January 1, 2008.

Morguard Investments Limited Employees’ Retirement Plan (the “MIL Plan”) is a defined benefit plan that provides benefits based on years of service, years of contributions and annual earnings.

Effective January 1, 2008, all members of the MIL Plan ceased to accrue future benefits under the MIL Plan and commenced participation under the new defined contribution provisions of the Morguard Plan. No assets or liabilities will transfer from the MIL Plan to the new Morguard Plan with respect to benefits accrued to December 31, 2007, with respect to MIL Plan members. Accrued benefits under the MIL Plan will be determined using credited service and benefit entitlement as at December 31, 2007.

Membership is a requirement after a defined term of employment and age. Funding of the MIL Plan is provided by contributions from Morguard Investments Limited (“MIL”). Certain employees who commenced employment prior to January 1, 1997, elected to contribute to the MIL Plan and receive a higher benefit. The most recent actuarial valuation for the MIL Plan was as at December 31, 2016.

The significant actuarial assumptions adopted in measuring the Company’s defined benefit pension plans for the years ended December 31, 2019, and 2018, are as follows:

For the years ended December 31		2019		2018
	Morguard	**MIL**	Morguard	MIL
Assumptions for defined benefit pension obligation				
Discount rate	**3.10%**	**3.10%**	3.75%	3.75%
Rate of price inflation	**1.35%**	**1.35%**	1.40%	1.40%
Rate of pension increases - pre-retirement	**—**	**1.25%**	—	1.35%
Rate of pension increases - post-retirement	**—**	**1.25%**	—	1.35%
Assumptions for defined benefit expense				
Discount rate	**3.75%**	**3.75%**	3.50%	3.50%
Rate of price inflation	**1.40%**	**1.40%**	1.69%	1.69%
Rate of compensation increase	**—**	**—**	2.69%	—
Rate of pension increases - pre-retirement	**—**	**1.35%**	—	1.65%
Rate of pension increases - post-retirement	**—**	**1.35%**	—	1.65%

Information about the Company's defined benefit pension plans is as follows:

As at December 31			2019			2018
	Morguard	**MIL**	**Total**	Morguard	MIL	Total
Accrued benefit obligations						
Balance at beginning of year	**($51,949)**	**($37,344)**	**($89,293)**	($57,261)	($41,097)	($98,358)
Current service cost	**(6)**	**—**	**(6)**	(16)	—	(16)
Interest cost	**(1,874)**	**(1,377)**	**(3,251)**	(1,933)	(1,418)	(3,351)
Benefits paid	**5,029**	**2,254**	**7,283**	5,291	1,819	7,110
Changes in:						
Financial assumptions	**(3,169)**	**(2,970)**	**(6,139)**	1,246	3,341	4,587
Experience adjustments	**21**	**19**	**40**	724	11	735
Balance at end of year	**($51,948)**	**($39,418)**	**($91,366)**	($51,949)	($37,344)	($89,293)
Plan assets						
Fair value at beginning of year	**$122,548**	**$40,726**	**$163,274**	$135,052	$44,146	$179,198
Expected return on plan assets	**4,468**	**1,501**	**5,969**	4,606	1,522	6,128
Administration expenses	**(451)**	**(180)**	**(631)**	(485)	(168)	(653)
Return on plan assets	**12,028**	**3,977**	**16,005**	(8,986)	(2,955)	(11,941)
Employer contributions	**(2,414)**	**—**	**(2,414)**	(2,348)	—	(2,348)
Benefits paid	**(5,029)**	**(2,254)**	**(7,283)**	(5,291)	(1,819)	(7,110)
Balance at end of year	**$131,150**	**$43,770**	**$174,920**	$122,548	$40,726	$163,274
Net assets	**$79,202**	**$4,352**	**$83,554**	$70,599	$3,382	$73,981

In 2019, Morguard contributed $2,414 to the defined contribution plan (2018 - $2,348).

Details of the defined benefit expense (income) recorded in the consolidated statements of comprehensive income for the years ended December 31, 2019, and 2018, are provided below:

For the years ended December 31			2019			2018
	Morguard	**MIL**	**Total**	Morguard	MIL	Total
Components of defined benefit cost						
Current service cost	**$6**	**$—**	**$6**	$16	$—	$16
Interest cost	**1,874**	**1,377**	**3,251**	1,933	1,418	3,351
Expected return on plan assets	**(4,468)**	**(1,501)**	**(5,969)**	(4,606)	(1,522)	(6,128)
Administrative expenses and taxes	**375**	**175**	**550**	376	175	551
Net benefit plan expense (income)	**($2,213)**	**$51**	**($2,162)**	($2,281)	$71	($2,210)

Details of the defined benefit pension plan recorded in the consolidated statements of comprehensive income are provided below:

For the years ended December 31			2019			2018
	Morguard	**MIL**	**Total**	Morguard	MIL	Total
Changes in:						
Financial assumptions	**$3,169**	**$2,970**	**$6,139**	($1,246)	($3,341)	($4,587)
Experience adjustments	**(21)**	**(19)**	**(40)**	(724)	(11)	(735)
Return of plan assets	**(11,952)**	**(3,972)**	**(15,924)**	9,095	2,948	12,043
Net actuarial loss (gain) on defined benefit pension plans	**($8,804)**	**($1,021)**	**($9,825)**	$7,125	($404)	$6,721

Reconciliation of net accrued pension assets for the years ended December 31, 2019, and 2018, is as follows:

For the years ended December 31			2019			2018
	Morguard	**MIL**	**Total**	Morguard	MIL	Total
Net defined benefit asset, beginning of the year	**$70,599**	**$3,382**	**$73,981**	$77,791	$3,049	$80,840
Net benefit plan income (expense)	**2,213**	**(51)**	**2,162**	2,281	(71)	2,210
Net actuarial gain (loss)	**8,804**	**1,021**	**9,825**	(7,125)	404	(6,721)
Employer contribution	**(2,414)**	**—**	**(2,414)**	(2,348)	—	(2,348)
Net defined benefit asset, end of the year	**$79,202**	**$4,352**	**$83,554**	$70,599	$3,382	$73,981

Details of the defined benefit obligation by participant status as at December 31, 2019, and 2018, are as follows:

For the years ended December 31			2019			2018
	Morguard	**MIL**	**Total**	Morguard	MIL	Total
Actives, suspended and long-term disability	**$11,952**	**$26,664**	**$38,616**	$11,549	$23,676	$35,225
Vested deferred	**2,268**	**3,134**	**5,402**	2,281	2,765	5,046
Retirees	**37,728**	**9,620**	**47,348**	38,119	10,903	49,022
Total	**$51,948**	**$39,418**	**$91,366**	$51,949	$37,344	$89,293

The Morguard Plan and the MIL Plan have a sole investment in the Morguard Master Trust Fund (the "Master Trust"), and the assets of the Morguard Plan and the MIL Plan are combined in the Master Trust. The fair value of the investments in the Master Trust is as follows:

For the years ended December 31	2019	2018
Cash and cash equivalents	**$2,549**	$3,392
Fixed-income securities	**36,226**	29,139
Convertible securities	**—**	2,078
Canadian equities	**112,521**	105,954
Canadian pooled funds	**23,624**	21,882
Other	**—**	829
Total investments	**$174,920**	$163,274

The following is a quantitative sensitivity analysis of the impact on the accrued pension benefits obligation as a result of the following changes in the significant pension assumptions:

	Increase (Decrease) in Pension Benefit Obligation		
Year ended December 31, 2019	**Morguard**	**MIL**	**Total**
Discount rate			
Discount rate -100 basis points	**$5,785**	**$6,628**	**$12,413**
Discount rate +100 basis points	**(4,713)**	**(5,314)**	**(10,027)**
Pension increase rate			
Pension increase rate -50 basis points	**—**	**(3,283)**	**(3,283)**
Pension increase rate +50 basis points	**—**	**3,647**	**3,647**
Mortality			
Mortality - life expectancy for member age 65 -1 year	**(2,424)**	**(1,632)**	**(4,056)**
Mortality - life expectancy for member age 65 +1 year	**2,395**	**1,602**	**3,997**

The following are the expected benefits payments to be made in the next 10 years from the defined benefit plan obligations:

Year ended December 31, 2019	Morguard	MIL	Total
Year 1	**$3,855**	**$1,413**	**$5,268**
Year 2	**3,770**	**1,484**	**5,254**
Year 3	**3,704**	**1,637**	**5,341**
Year 4	**3,671**	**1,684**	**5,355**
Year 5	**3,597**	**1,734**	**5,331**
Next 5 years	**16,639**	**10,178**	**26,817**

The Morguard Plan holds directly 336,618 common shares of the Company and 80,962 Units of Morguard REIT. Net benefit plan income is recorded in property management and corporate expenses.

NOTE 27
CONTINGENCIES
(a) Commitments

Future minimum annual rental payments for land leases, office premises and equipment operating leases that expire at various dates ending in 2113 are payable over the next five years and thereafter as follows:

2020	**$15,501**
2021	**14,504**
2022	**13,828**
2023	**12,685**
2024	**11,099**
Thereafter	**$460,966**

The Company is a lessee under eight ground leases that expire at various dates, the latest of which is 2113. Annual rental expenses for each of the ground leases are as follows:

Ground Lease #1	Annual rental expense
From July 1, 2010 to June 30, 2030	$8,760 (see Note 28(b))
From July 1, 2030 to June 30, 2050	Fair market value of land at June 2030 multiplied by 6%
From July 1, 2050 to June 30, 2060	Fair market value of land at June 2050 multiplied by 6%

Ground Lease #2	Annual rental expense
From March 1, 2011 to February 28, 2021	$714
From March 1, 2021 to February 28, 2065	Fair market value of land at February 2021 multiplied by 8.5%

Ground Lease #3	Annual rental expense
From October 1, 2019 to September 30, 2024	US$342
From October 1, 2024 to September 30, 2029	396
Every 5 years thereafter	The greater of: (i) 1.1 times the rent for the fifteenth lease year (2029) and the last year of each fifth year lease year increment thereafter until 2113; or (ii) Index Adjustment

The Company has the option to purchase the land pertaining to Ground Lease #3 in September 2029 for US$7,150.

The Company has five other ground leases that expire between March 1, 2020 and July 21, 2069. The Company is required to pay an annual base rent totalling $502. In addition, the Company has a commitment to purchase the land of one of the ground leases that expires on May 31, 2022. The purchase price of the land will be based on the market value of the land at the end of the lease term.

The Company has entered into various leasing agreements and contracts for the development of properties. As at December 31, 2019, committed leasing costs, capital and development expenditures are estimated to be $41,642.

(b) Contingencies

Ground Lease #1 represents the lease associated with the land underlying a mixed-use property located in Toronto, Ontario. Since the lessor and the Company were not able to reach an agreement on the fair market value of the land on the last scheduled 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.

As indicated above, the Majority Decision for Ground Lease #1 was an annual land rent of $10,962, compared to the decision delivered by the minority of the Arbitrators, which would have resulted in an annual land rent of $3,600. The Company appealed the Majority Decision, and on December 23, 2014, the appeal decision determined that the Majority Decision was to be set aside, and a new arbitration has been ordered in accordance with instructions provided by the court. A further appeal by the landlord was heard in early 2016, which concluded the matter would revert back to the Arbitrators to re-examine certain facts affecting the determination of fair market value of the land.

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 had recorded annual land rent of $10,962 and reversed $17,250 (pre-tax) of land rent previously expensed.

As at December 31, 2019, the Company has issued irrevocable letters of credit relating to normal course development activity amounting to $18,274 (2018 - $19,550).

In addition, 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.

(c) Franchise Agreements

Under the terms of the franchise agreements expiring through August 31, 2038, annual payments for franchise fees are payable for 22 hotel properties owned by the Company. The franchise fees paid are based on a percentage of revenue and fixed annual fees.

NOTE 28

MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its shareholders' equity, mortgages payable, Unsecured Debentures, convertible debentures, loans payable, bank indebtedness and lease liabilities. The Company's objective when managing capital is to ensure that the Company will continue as a going concern so that it can sustain daily operations and provide adequate returns to its shareholders.

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

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

As at December 31	2019	2018
Mortgages payable, principal balance	**$4,375,947**	$4,369,811
Unsecured Debentures, principal balance	**1,050,000**	600,000
Convertible debentures, principal balance	**195,500**	235,136
Loans payable	**33,679**	60,309
Bank indebtedness	**101,100**	225,160
Lease liabilities	**166,144**	9,754
Shareholders' equity	**3,548,906**	3,431,366
	$9,471,276	$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 29

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and financial liabilities comprise cash, restricted cash, amounts receivable, mortgages and loans receivable, accounts payable and accrued liabilities, bank indebtedness, mortgages payable, loans payable, lease liabilities, Unsecured Debentures and convertible debentures (excluding any conversion option). Fair values of financial assets and financial liabilities and a discussion of risks associated with financial assets and liabilities are presented as follows.

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 December 31, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,406,348 (2018 - $4,428,532), compared with the carrying value of $4,375,947 (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 December 31, 2019, the fair value of the Unsecured Debentures has been estimated at $1,070,033 (2018 - $603,624) compared with the carrying value of $1,050,000 (2018 - $600,000).

The fair value of the convertible debentures liability is based on their market trading prices (Level 1). As at December 31, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $202,838 (2018 - $229,797), compared with the carrying value of $195,500 (2018 - $235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using December 31, 2019, market rates for debt on similar terms (Level 3). Based on these assumptions, as at December 31, 2019, the fair value of the finance lease receivable has been estimated at $56,574 (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:

	December 31, 2019			December 31, 2018		
As at	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$10,201,283**	$—	$—	$9,645,596
Investments in real estate funds	**—**	**—**	**109,712**	—	—	103,984
Investment in marketable securities	**142,911**	**—**	**—**	38,606	—	—
Financial liabilities:						
Morguard Residential REIT Units	**—**	**516,462**	**—**	—	417,481	—
Conversion option on MRG convertible debentures	**—**	**3,472**	**—**	—	2,469	—

Risks Associated with Financial Assets and Financial Liabilities

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

(a) Market Risk

The risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate due to movements in market prices includes the effect of interest rate risk and foreign exchange risk.

Interest Rate Risk

The Company is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be refinanced on terms as favourable as those of the existing indebtedness. Interest on the Company's bank indebtedness and certain mortgages is subject to floating interest rates. For the year ended December 31, 2019, the increase or decrease in annual net income for each one percent change in interest rates on floating-rate debt amounts to $2,946.

The Company's objective in managing interest rate risk is to minimize the volatility of the Company's income. As at December 31, 2019, interest rate risk has been minimized because the majority of long-term debt is financed at fixed interest rates with maturities scheduled over a number of years. Mortgages payable totalling $278,025 are subject to floating interest rates.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk as it relates to its U.S. investments due to fluctuations in the exchange rate between the Canadian and United States dollars. Changes in the exchange rate may result in a reduction or an increase of reported earnings and other comprehensive income. For the year ended December 31, 2019, a $0.05 change in the United States to Canadian dollar exchange rate would have resulted in a $1,598 change to net income or loss and a $56,143 change to comprehensive income or loss.

The Company's objective in managing foreign exchange risk is to mitigate the exposure from fluctuations in the exchange rate by maintaining U.S.-denominated debt against its U.S. assets. The Company currently does not hedge translation exposures.

(b) Credit Risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable or unwilling to fulfil their lease commitments. The Company mitigates the risk of loss by investing in well-located properties in urban markets that attract quality tenants, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. A tenant's success over the term of its lease and its ability to fulfil its obligations are subject to many factors. There can be no assurance that a tenant will be able to fulfil all of its existing commitments and leases up to the expiry date.

The Company's commercial leases typically have lease terms between five and 10 years and may include clauses to enable periodic upward revision of the rental rates and contractual extensions at the option of the lessee.

Future minimum rentals under non-cancellable tenant operating leases are as follows:

As at December 31	2019	2018
Not later than one year	**$339,827**	$327,957
Later than one year and not longer than five years	**864,117**	876,791
Later than five years	**503,671**	572,749
	$1,707,615	$1,777,497

The objective in managing credit risk is to mitigate exposure through the use of approved credit policies governing the Company's credit practices that limit transactions according to counterparties' credit quality.

The carrying amount of amounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of income within property operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of income.

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

As at December 31	2019	2018
Trade receivables	**$17,487**	$19,051
Less: Allowance for doubtful accounts	**(2,719)**	(1,768)
Trade receivables, net	**$14,768**	$17,283

(c) Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company will be subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced. The Company's objectives in minimizing liquidity risk are to maintain appropriate levels of leverage on its real estate assets and to stagger the debt maturity profile. As at December 31, 2019, the Company was holding cash of $123,168 and had undrawn lines of credit available to it of $255,069.

NOTE 30

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 year ended December 31, 2019	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	**$366,705**	**$251,957**	**$240,623**	**$12,938**	**$245,282**	**$1,117,505**
Property/hotel operating expenses	**(154,800)**	**(108,510)**	**(104,143)**	**(4,143)**	**(189,728)**	**(561,324)**
Net operating income	**$211,905**	**$143,447**	**$136,480**	**$8,795**	**$55,554**	**$556,181**

For the year ended December 31, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$351,605	$245,957	$230,127	$13,808	$237,938	$1,079,435
Property/hotel operating expenses	(149,947)	(113,188)	(100,673)	(4,414)	(180,488)	(548,710)
	$201,658	$132,769	$129,454	$9,394	$57,450	$530,725
Land rent arbitration settlement						17,250
Net operating income						$547,975

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at December 31, 2019						
Real estate/hotel properties	**$4,889,129**	**$2,744,442**	**$2,402,757**	**$164,955**	**$628,783**	**$10,830,066**
Mortgages payable	**$2,099,509**	**$909,400**	**$973,631**	**$30,970**	**$351,769**	**$4,365,279**
For the year ended December 31, 2019						
Additions to real estate/hotel properties	**$228,584**	**$57,027**	**$162,502**	**$755**	**$17,876**	**$466,744**
Fair value gain (loss) on real estate properties	**$75,140**	**($49,911)**	**($12,272)**	**$14,100**	**$—**	**$27,057**

	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 year ended December 31, 2018						
Additions to real estate/hotel properties	$147,952	$92,183	$239,875	$45,532	$52,062	$577,604
Fair value gain (loss) on real estate properties	$275,203	($49,086)	$6,279	$6,577	$—	$238,973

(b) Regional Segments

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

As at December 31	2019	2018
Real estate and hotel properties		
Canada	**$7,740,218**	$7,376,407
United States	**3,089,848**	2,935,267
	$10,830,066	$10,311,674

For the years ended December 31	2019	2018
Revenue from real estate and hotel properties		
Canada	**$863,748**	$836,613
United States	**253,757**	242,822
	$1,117,505	$1,079,435

NOTE 31

SUBSEQUENT EVENTS

On January 15, 2020, the Company completed the refinancing of four office properties located in Mississauga, Ontario, in the amount of $100,000 at an interest rate of 3.525% and for a term of seven years. The maturing mortgage amounting to $20,661 was open and prepayable at no penalty before the scheduled maturity on February 1, 2020 and had an interest rate of 4.00%.

Subsequent to December 31, 2019, the Company acquired 23,500 common shares under its NCIB for cash consideration of $4,686.

Temple has entered into a definitive agreement with Morguard pursuant to which Morguard will acquire all of the outstanding common shares of Temple not currently owned by Morguard. The transaction will be effected by way of a court-approved plan of arrangement under the *Canada Business Corporations Act*. The agreement provides that Temple shareholders, excluding Morguard, will receive $2.10 per common share from Morguard. A meeting of Temple shareholders was held February 10, 2020, whereat Temple shareholders approved a special resolution approving the acquisition by Morguard of all of the issued and outstanding common shares of Temple not already owned by Morguard. The arrangement agreement was completed on February 18, 2020, and subsequently on February 19, 2020, Temple de-listed from the TSX.