MORGUARD CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2019

TAKING ACTION.
GETTING RESULTS.

Morguard

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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PART I

Morguard Corporation ("Morguard" or the "Company") is pleased to provide this review of operations and update on our financial performance for the three and nine months ended September 30, 2019. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per common share amounts.

The following Management's Discussion and Analysis ("MD&A") sets out the Company's strategies and provides an analysis of the financial performance for the three and nine months ended September 30, 2019, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the Company's unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2019 and 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB") and is dated November 6, 2019. Disclosure contained in this document is current to that date unless otherwise noted.

Additional information relating to Morguard Corporation, including the Company's Annual Information Form, can be found at www.sedar.com and www.morguard.com.

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words "anticipates", "believes", "may", "continue", "estimate", "expects" and "will" and words of similar expression, constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; changes in business strategy or development/acquisition plans; environmental exposures; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the Company; and other factors referred to in the Company's filings with Canadian securities regulators. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not assume the obligation to update or revise any forward-looking statements.

NON-IFRS FINANCIAL MEASURES

The Company reports its financial results in accordance with IFRS. However, this MD&A also uses certain financial measures that are not defined by IFRS. These measures do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other reporting issuers in similar or different industries. These measures should be considered as supplemental in nature and not as substitutes for related financial information prepared in accordance with IFRS. The Company's management uses these measures to aid in assessing the Company's underlying core performance and provides these additional measures so that investors may do the same. Management believes that the non-IFRS measures described below, which supplement the IFRS measures, provide readers with a more comprehensive understanding of management's perspective on the Company's operating results and performance.

The following discussion describes the non-IFRS measures the Company uses in evaluating its operating results.

NET OPERATING INCOME ("NOI") AND ADJUSTED NET OPERATING INCOME ("ADJUSTED NOI")

NOI is defined by the Company as revenue from real estate properties and revenue from hotel properties less property operating costs, utilities, realty taxes and hotel operating expenses as presented in the consolidated statements of income (loss) and includes the land arbitration settlement recognized during the second quarter of 2018 attributable to the reversal of land rent previously expensed within property operating costs for the period from July 1, 2010 to April 30, 2018. NOI is an important measure in evaluating the operating performance of the Company's real estate properties and is a key input in determining the fair value of the Company's income producing properties.

NOI includes the impact of realty tax expense accounted for under the International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21, *Levies* ("IFRIC 21"). IFRIC 21 states that an entity recognizes a levy liability in accordance with the relevant legislation. The obligating event for realty taxes for the U.S. municipalities in which the Company operates is ownership of the property on January 1 of each year for which the tax is imposed and, as a result, the Company records the entire annual realty tax expense for its U.S. properties on January 1, except for U.S. properties acquired during the year, in which case the realty taxes are not recorded in the year of acquisition.

Adjusted NOI represents NOI adjusted to exclude the impact of realty taxes accounted for under IFRIC 21, noted above and the land rent arbitration settlement. Adjusted NOI records realty taxes for all properties on a *pro rata* basis over the entire fiscal year.

A reconciliation of NOI and Adjusted NOI from the IFRS financial statement presentation of revenue from real estate properties and revenue from hotel properties less property operating costs, utilities, realty taxes and hotel operating expenses is provided in "Part III, Review of Operational Results."

COMPARATIVE NOI

Comparative NOI is used by the Company to evaluate the period-over-period performance of those properties that are stabilized and owned by the Company continuously for the current and comparable reporting period. The Company believes it is useful to provide an analysis of Comparative NOI, which eliminates non-recurring and non-cash items. Comparative NOI represents NOI from properties that have been adjusted for: (i) acquisitions, (ii) dispositions and (iii) properties subject to significant change as a result of recently completed development. Comparative NOI also excludes the impact of straight-line rents, realty taxes accounted for under IFRIC 21, lease cancellation fees, the impact of the adoption of IFRS 16, *Leases,* and other non-cash and non-recurring items.

A reconciliation of Comparative NOI from the IFRS financial statement presentation of revenue from real estate properties and revenue from hotel properties less property operating costs, utilities, realty taxes and hotel operating expenses is provided in "Part III, Review of Operational Results."

FUNDS FROM OPERATIONS ("FFO") AND NORMALIZED FFO

FFO is a non-IFRS measure widely used as a real estate industry standard that supplements net income and evaluates operating performance but is not indicative of funds available to meet the Company's cash requirements. FFO can assist with comparisons of the operating performance of the Company's real estate between periods and relative to other real estate entities. FFO is computed in accordance with the current definition of the Real Property Association of Canada ("REALpac"), with the exception of the deduction of the non-controlling interest of Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT"), and is defined as net income (loss) attributable to common shareholders adjusted for: (i) deferred income taxes, (ii) unrealized changes in the fair value of real estate properties, (iii) realty taxes accounted for under IFRIC 21, (iv) internal leasing costs, (v) gains/losses from the sale of real estate or hotel property (including income taxes on the sale of real estate or hotel property), (vi) transaction costs expensed as a result of a business combination, (vii) gains/losses on business combination, (viii) the non-controlling interest of Morguard Residential REIT, (ix) amortization of depreciable real estate assets (including right-of-use assets), (x) amortization of intangible assets, (xi) principal payments of lease liabilities, (xii) FFO adjustments for equity-accounted investments, (xiii) other fair value adjustments and non-cash items. The Company believes that the analysis of FFO is more clearly presented when the non-controlling interest attributable to Morguard Residential REIT is eliminated. The Company considers FFO to be a useful measure for reviewing its comparative operating and financial performance.

Normalized FFO is computed as FFO excluding non-recurring items on a net of tax basis.

A reconciliation of net income (loss) attributable to common shareholders (an IFRS measure) to FFO and Normalized FFO is presented in the section "Part III, Funds From Operations."

NON-CONSOLIDATED MEASURES

The Company's senior unsecured debentures ("Unsecured Debentures") are subject to the following definitions and covenants pursuant to the Trust Indenture and subsequent Supplemental Indentures, (collectively, the "Indenture"), that are calculated based on the Company's financial results, prepared in accordance with IFRS, adjusted to account for Morguard Real Estate Investment Trust ("Morguard REIT"), Morguard Residential REIT and Temple Hotels Inc. ("Temple"), collectively the Company's "Public Entity Investments", using the equity method of accounting and other adjustments as defined by the Indenture described below ("Non-Consolidated Basis" or "Morguard Non-Consolidated Basis"). The presentation of Non-Consolidation Basis measures represents a non-IFRS measure and may not accurately depict the legal and economic implications of the Company.

The Company computes an interest coverage ratio, an indebtedness to aggregate assets ratio and an adjusted shareholders' equity covenant on a Non-Consolidated Basis. Reconciliations of the Non-Consolidated Basis inputs (discussed below) used in calculating the covenants from their IFRS financial statement presentation are provided in the section "Part IV, Balance Sheet Analysis."

Non-consolidated measures that are calculated on a Non-Consolidated Basis are as follows:

NON-CONSOLIDATED INTEREST COVERAGE RATIO

Interest coverage ratio measures the amount of cash flow available to meet annual interest payments on the Company's indebtedness on a Non-Consolidated Basis and is defined as Non-Consolidated EBITDA divided by Non-Consolidated Interest Expense. Generally, the higher the interest coverage ratio, the lower the credit risk. Non-Consolidated interest coverage ratio is presented in this MD&A because management considers this non-IFRS measure to be an important compliance measure of the Company's operating performance.

Non-Consolidated EBITDA

Non-Consolidated EBITDA is defined as net income (loss) on a Non-Consolidated Basis before interest expense, income taxes, amortization, fair value adjustments to real estate properties, acquisition-related costs, debt settlement or other costs, any gain or loss attributed to the sale or disposition of any asset or liability, other non-cash items and non-recurring items, plus the distributions received from Morguard REIT and Morguard Residential REIT.

Non-Consolidated Interest Expense

Non-Consolidated Interest Expense is defined as interest expense and interest capitalized to development properties on a Non-Consolidated Basis.

NON-CONSOLIDATED INDEBTEDNESS TO AGGREGATE ASSETS RATIO

Indebtedness to aggregate assets ratio is a compliance measure and establishes the limit for financial leverage of the Company on a Non-Consolidated Basis. Indebtedness to aggregate assets ratio is presented in this MD&A because management considers this non-IFRS measure to be an important compliance measure of the Company's financial position.

Non-Consolidated Indebtedness

Indebtedness is a measure of the amount of debt financing utilized by the Company on a Non-Consolidated Basis.

Non-Consolidated Aggregate Assets

Aggregate assets is a measure of the value of the Company's assets on a Non-Consolidated Basis, excluding goodwill and deferred income tax assets and adding back accumulated amortization of hotel properties.

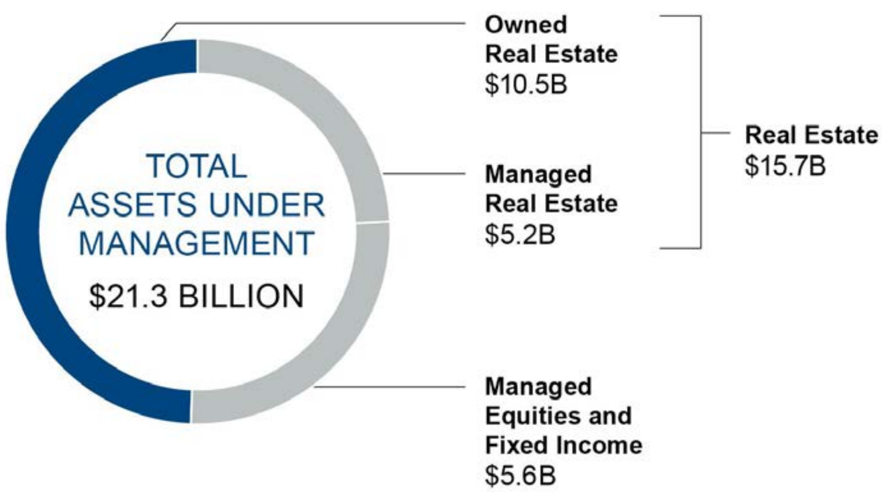
NON-CONSOLIDATED ADJUSTED SHAREHOLDERS' EQUITY

Adjusted shareholders' equity is defined as the aggregate shareholders' equity computed on a Non-Consolidated Basis adjusted to exclude deferred tax assets and liabilities and to add back accumulated amortization of hotel properties. Adjusted shareholders' equity is a compliance measure and establishes a minimum requirement of equity of the Company.

PART II

BUSINESS OVERVIEW

Morguard Corporation is a real estate investment company whose principal activities include the acquisition, development and ownership of multi-suite residential, commercial and hotel properties. Morguard is also one of Canada's premier real estate investment advisors and management companies, representing major institutional and private investors. Morguard's total assets under management (including both owned and managed assets) were valued at $21.3 billion as at September 30, 2019. The Company's common shares are publicly traded and listed on the Toronto Stock Exchange ("TSX") under the symbol "MRC." The Company's primary goal is to accumulate a portfolio of high-quality real estate assets and then deliver the benefits of such real estate ownership to shareholders.



MANAGEMENT AND ADVISORY SERVICES

The Company, through its wholly owned subsidiary, Morguard Investments Limited ("MIL"), provides real estate management services to Canadian institutional investors. Services include acquisitions, development, dispositions, leasing, performance measurement and asset and property management. For over 40 years, MIL has positioned itself as one of Canada's leading providers of real estate portfolio and asset and property management services. In addition, Morguard through its 60% ownership interest in Lincluden Investment Management Limited ("Lincluden") offers institutional clients and private investors a broad range of global investment products across equity, fixed-income and balanced portfolios.

As of September 30, 2019, MIL together with Lincluden manage a portfolio (excluding Morguard's corporately owned assets and assets owned by Morguard REIT, Morguard Residential REIT and Temple) of assets having an estimated value of $10.8 billion.

BUSINESS STRATEGY

Morguard's strategy is to acquire a diversified portfolio of commercial and multi-suite residential real estate assets both for its own accounts and for its institutional clients. The Company's cash flows are well diversified given the revenue stream earned from its management and advisory services platform, the Company's corporately owned assets and the distributions received from its investment in Morguard REIT and Morguard Residential REIT. Diversification of the portfolio, by both asset type and location, serves to reduce investment risk. The Company will divest itself of non-core assets when proceeds can be reinvested to improve returns. A primary element of the Company's business strategy is to generate stable and increasing cash flow and asset value by improving the performance of its real estate investment portfolio and by acquiring or developing real estate properties in sound economic markets.

The Company's business strategy consists of the following elements:

- Increase property values and cash flow through aggressive leasing of available space and of space becoming available;
- Take advantage of long-standing relationships with national and regional tenants;
- Target and execute redevelopment and expansion projects that will generate substantial returns;
- Pursue opportunities to acquire or develop strategically located properties;
- Minimize operating costs by utilizing internalized functions, including property and asset management, leasing, finance, accounting, legal and information technology services; and
- Dispose of properties where the cash flows and values have been maximized.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at	**September 30, 2019**	December 31, 2018	September 30, 2018
Real estate properties	**$9,819,505**	$9,645,596	$9,273,105
Hotel properties	**636,544**	666,078	683,906
Equity-accounted and other fund investments	**259,464**	281,464	277,232
Total assets	**11,371,157**	11,082,758	10,783,484
Indebtedness(1)	**$5,569,269**	$5,498,668	$5,342,188
Indebtedness to total assets (%)	**49.0**	49.6	49.5
Non-Consolidated Indebtedness to total assets (%) (2)	**41.5**	39.8	39.9
Total equity	**$4,273,728**	$4,228,798	$4,126,012
Shareholders' equity per common share	**310.24**	303.84	288.80
Exchange rates - Canadian dollar to U.S. dollar	**$0.76**	$0.73	$0.77
Exchange rates - U.S. dollar to Canadian dollar	**$1.32**	$1.36	$1.29

(1) Total indebtedness is defined as the sum of the current and non-current portion of: (i) mortgages payable, (ii) Unsecured Debentures, (iii) convertible debentures, (iv) lease liabilities, (v) bank indebtedness, (vi) loans payable, (vii) construction financing and (viii) letters of credit.

(2) As defined in the Indenture, adjusted to exclude goodwill and deferred income tax assets and liabilities and to add back accumulated amortization of hotel properties.

	Three months ended September 30		**Nine months ended September 30**	
	2019	2018	**2019**	2018
Revenue from real estate properties	**$215,253**	$209,610	**$651,186**	$620,510
Revenue from hotel properties	**65,525**	64,689	**184,351**	180,538
Management and advisory fees	**13,910**	14,998	**37,991**	43,836
Total revenue	**299,410**	294,033	**891,441**	856,576
Net operating income	**150,059**	145,384	**404,778**	405,364
Fair value gain (loss), net	**(30,157)**	2,046	**113**	132,582
Net income (loss) attributable to common shareholders	**(1,180)**	46,750	**102,028**	238,962
Per common share - basic and diluted	**(0.10)**	4.11	**9.04**	20.83
Funds from operations	**70,903**	56,909	**186,780**	179,986
Per common share - basic and diluted	**6.29**	4.98	**16.55**	15.69
Normalized FFO	**57,460**	57,082	**166,322**	163,171
Per common share - basic and diluted	**5.09**	5.00	**14.74**	14.23
Distributions received from Morguard REIT	**8,471**	8,168	**25,277**	24,488
Distributions received from Morguard Residential REIT	**4,202**	3,944	**12,317**	11,830
Dividends declared/paid	**(1,694)**	(1,709)	**(5,080)**	(5,147)
Average exchange rates - Canadian dollar to U.S. dollar	**$0.76**	$0.77	**$0.75**	$0.78
Average exchange rates - U.S. dollar to Canadian dollar	**$1.32**	$1.31	**$1.33**	$1.29

Total assets as at September 30, 2019, were $11,371,157, compared to $11,082,758 as at December 31, 2018. Total assets increased by $288,399 primarily due to the following:

- An increase in real estate properties of $173,909 mainly due to adoption of IFRS 16 which included the initial recognition of right-of-use assets on the Company's land leases of $153,610, acquisition of real estate properties of $53,130, capital and development expenditures of $70,082, tenant incentives and leasing commissions of $12,710, a net fair value gain of $59,077, partially offset by the disposition of real estate properties of $79,813 and a change in the foreign exchange rate amounting to $85,780;
- A decrease in hotel properties of $29,534 primarily due to an impairment provision of $19,059;
- A decrease in equity accounted and other fund investments of $22,000;
- An increase in other assets and prepaid expense of $147,186 primarily due to an increase in investment in marketable securities; and
- An increase in cash of $20,835.

Total revenue during the three months ended September 30, 2019, increased by $5,377 to $299,410, compared to $294,033 in 2018. The increase was primarily due to the following:

- An increase in revenue from real estate properties in the amount of $5,643;
- An increase in revenue from hotel properties in the amount of $836, partially offset by;
- A decrease in management and advisory fees of $1,088.

PROPERTY PROFILE

As at September 30, 2019, the Company and its subsidiaries own a diversified portfolio of 208 multi-suite residential, retail, office, industrial and hotel properties located in Canada and in the United States.

PORTFOLIO COMPOSITION BY ASSET TYPE

The composition of the Company's real estate properties by asset type as at September 30, 2019 was as follows:

Asset Type	Number of Properties	GLA Square Feet (000s)(1)	Apartment Suites/Hotels Rooms(2)	Real Estate Properties
Multi-suite residential	55	—	17,638	$4,603,457
Retail	40	8,505	—	2,564,939
Office	49	7,267	—	2,356,685
Industrial	25	1,181	—	148,530
Hotel	39	—	5,903	650,957
Properties and land held for and under development	—	—	—	142,718
Total (3)	**208**	**16,953**	**23,541**	**$10,467,286**

(1) Total GLA is shown on a proportionate basis; on a 100% basis, total GLA of the Company's commercial properties is 21.0 million square feet.
(2) Total suites/hotel rooms include equity-accounted investments and non-controlling interest. The Company on a proportionate basis has ownership of 16,718 suites and 5,666 hotel rooms.
(3) Includes one multi-suite residential, two office properties and two hotel properties classified as equity-accounted investments and one office property classified as finance lease and excludes right-of-use assets on the Company's land leases.

The Company's multi-suite residential portfolio comprises 24 Canadian properties (21 high-rise buildings, two low-rise buildings and one mid-rise building located primarily throughout the Greater Toronto Area ("GTA")) and 31 U.S. properties (20 low-rise and seven mid-rise garden-style communities located in Colorado, Texas, Louisiana, Georgia, Florida, North Carolina, Virginia and Maryland and four high-rise buildings located in Chicago, Illinois and Los Angeles, California). The combined multi-suite residential portfolio represents 17,638 suites.

The Company's retail portfolio includes two broad categories of income producing properties: (i) enclosed full-scale, regional shopping centres that are dominant in their respective markets; and (ii) neighbourhood and community shopping centres that are primarily anchored by food retailers, discount department stores and banking institutions.

The retail portfolio comprises 29 properties located in Canada and 11 properties located in Florida and Louisiana. The combined retail portfolio represents 8.5 million square feet of gross leasable area ("GLA").

The Company's office portfolio is focused on well-located, high-quality office buildings in major Canadian urban centres primarily located throughout the GTA, downtown Ottawa, Montréal, Calgary and Edmonton. The portfolio is balanced between single-tenant buildings under long-term lease to government and large national tenants and multi-tenant properties with well-distributed lease expiries that allow the Company to benefit from increased rent on lease renewals. The office portfolio represents 7.3 million square feet of GLA.

The Company's industrial portfolio comprises 25 industrial properties located throughout Ontario, Québec and British Columbia. The Industrial portfolio represents 1.2 million square feet of GLA.

The Company's hotel portfolio comprises 22 branded and 17 unbranded hotel properties located in six Canadian provinces and the Northwest Territories. Branded hotels include Hilton, Marriott, Holiday Inn and Wyndham and consist of full and select service formats. The hotel portfolio represents 5,903 rooms.

AVERAGE OCCUPANCY LEVELS

COMPARATIVE AVERAGE OCCUPANCY LEVELS

	Suites/GLA Square Feet	Sep. 2019	June 2019	Mar. 2018	Dec. 2018	Sep. 2018
Multi-suite residential	17,339 (1)	**96.9%**	96.9%	96.7%	96.1%	94.7%
Retail	7,971,500 (2)	**89.6%**	88.9%	89.3%	89.8%	88.9%
Office	7,267,000	**92.5%**	92.6%	92.5%	93.3%	92.8%
Industrial	1,181,000	**91.4%**	92.9%	88.7%	90.6%	92.8%

(1) Excludes two properties, one property located in Los Angeles, California and one property under development in New Orleans, Louisiana.
(2) Retail occupancy has been adjusted to exclude development space (533,432 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases.

The retail occupancy levels were adjusted to exclude development space (533,432 square feet of GLA) affected primarily by either disclaimed or acquired Target and Sears leases. As at September 30, 2019, this adjustment increased retail occupancy from 84.6% to 89.6%.

PART III

REVIEW OF OPERATIONAL RESULTS

The Company's operational results for the three and nine months ended September 30, 2019 and 2018 are summarized below:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Revenue from real estate properties	**$215,253**	$209,610	**$651,186**	$620,510
Revenue from hotel properties	**65,525**	64,689	**184,351**	180,538
Land rent arbitration settlement	**—**	—	**—**	17,250
Property operating expenses				
Property operating costs	**(45,763)**	(45,498)	**(137,859)**	(134,875)
Utilities	**(14,019)**	(14,190)	**(43,786)**	(42,742)
Realty taxes	**(23,756)**	(23,802)	**(109,262)**	(102,519)
Hotel operating expenses	**(47,181)**	(45,425)	**(139,852)**	(132,798)
Net operating income	**150,059**	145,384	**404,778**	405,364
OTHER REVENUE				
Management and advisory fees	**13,910**	14,998	**37,991**	43,836
Interest and other income	**3,377**	3,414	**13,420**	7,734
Sales of product and land	**1,345**	1,322	**4,493**	3,958
	18,632	19,734	**55,904**	55,528
EXPENSES				
Interest	**57,477**	52,980	**173,408**	154,731
Property management and corporate	**24,133**	24,029	**73,195**	69,298
Cost of sales of product and land	**489**	885	**2,756**	2,658
Amortization of hotel properties	**6,798**	6,104	**20,358**	18,722
Amortization of capital assets and other	**2,044**	1,621	**6,123**	4,823
Provision for impairment	**19,059**	—	**19,059**	6,661
	110,000	85,619	**294,899**	256,893
OTHER INCOME (EXPENSE)				
Fair value gain (loss), net	**(30,157)**	2,046	**113**	132,582
Equity loss from investments	**(28,448)**	(15,646)	**(31,660)**	(15,451)
Other income (expense)	**1,210**	(1,913)	**249**	3,768
	(57,395)	(15,513)	**(31,298)**	120,899
Income before income taxes	**1,296**	63,986	**134,485**	324,898
Provision for income taxes				
Current	**2,946**	260	**7,689**	9,934
Deferred	**641**	9,038	**20,786**	39,357
	3,587	9,298	**28,475**	49,291
Net income (loss) for the period	**($2,291)**	$54,688	**$106,010**	$275,607
Net income (loss) attributable to:				
Common shareholders	**($1,180)**	$46,750	**$102,028**	$238,962
Non-controlling interest	**(1,111)**	7,938	**3,982**	36,645
	($2,291)	$54,688	**$106,010**	$275,607
Net income (loss) per common share attributable to:				
Common shareholders - basic and diluted	**($0.10)**	$4.11	**$9.04**	$20.83

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

NET INCOME (LOSS)

Net loss for the three months ended September 30, 2019, was $2,291 compared to net income of $54,688 in 2018. The decrease in net income of $56,979 for the three months ended September 30, 2019, was primarily due to the following:

- An increase in net operating income of $4,675, primarily due to an increase in NOI due to net acquisition activity completed during and subsequent to September 30, 2018, and the impact of the adoption of IFRS 16, resulting in land rent expense being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease in management and advisory fees of $1,088, primarily due to lower asset management, property management and leasing fees earned, partially offset by higher disposition fees compared to 2018;
- An increase in interest expense of $4,497, mainly due to higher interest on lease liabilities (noted above), interest on mortgages, interest on Unsecured Debentures and interest on bank indebtedness, partially offset by lower interest on convertible debentures;
- An increase in impairment provision of $19,059, due to decrease in occupancy experienced at hotel properties mainly located in Alberta;
- A decrease in non-cash net fair value gain of $32,203, mainly due to a higher net fair value loss recorded on the Company’s real estate properties and an increase in net fair value loss on Morguard Residential REIT Units, partially offset by an increase in net fair value gain on investment in marketable securities;
- An increase in equity loss from investments of $12,802, mainly due to an increase in fair value loss;
- An increase in other income of $3,123, mainly due to an increase in foreign exchange gain; and
- A decrease in income taxes (current and deferred) of $5,711.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

NET INCOME

Net income for the nine months ended September 30, 2019, was $106,010, compared to $275,607 in 2018. The decrease in net income of $169,597 for the nine months ended September 30, 2019, was primarily due to the following:

- A decrease in net operating income of $586, primarily due to the land rent arbitration settlement received during the second quarter of 2018, partially offset by net acquisition activity completed during and subsequent to September 30, 2018, and the impact of the adoption of IFRS 16;
- A decrease in management and advisory fees of $5,845, primarily due to lower asset management, property management, leasing and disposition fees earned compared to 2018;
- An increase in interest and other income of $5,686, primarily due to higher income from investments and finance lease receivable;
- An increase in interest expense of $18,677 mainly due to higher interest on lease liabilities (noted above), interest on Unsecured Debentures and interest on mortgages payable, partially offset by lower interest on convertible debentures;
- An increase in property management and corporate expense of $3,897, primarily due to an increase in non-cash compensation expense related to the Company’s Stock Appreciation Rights plan (“SARs”);
- An increase in provision for impairment of $12,398, as a result of higher impairment recorded during 2019 compared to 2018;
- A decrease in non-cash net fair value gain of $132,469, mainly due to a lower net fair value gain recorded on the Company’s real estate properties and an increase in net fair value loss on Morguard Residential REIT Units, partially offset by increase in net fair value gain recorded on investment in marketable securities;
- An increase in equity loss from investments of $16,209, mainly due to an increase in fair value loss;
- A decrease in other income of $3,519, mainly due to higher foreign exchange loss and a gain on the recognition of a finance lease upon the completion of the Company’s development project in 2018, partially offset by higher insurance proceeds recognized in 2019; and
- A decrease in income taxes (current and deferred) of $20,816.

COMPARATIVE NET OPERATING INCOME

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Multi-suite residential (in local currency)	**$45,768**	$44,018	**$133,244**	$128,980
Retail (in local currency)	**33,155**	31,969	**98,580**	96,813
Office	**31,891**	31,814	**92,133**	91,474
Industrial	**2,025**	1,807	**4,195**	4,000
Hotel	**17,298**	19,345	**42,680**	48,280
Exchange amount to Canadian dollars	**8,721**	7,954	**26,097**	22,144
Comparative NOI	**138,858**	136,907	**396,929**	391,691
Land rent arbitration settlement	**—**	—	**—**	17,250
Acquired properties	**2,400**	412	**12,478**	4,394
Dispositions	**118**	1,654	**1,583**	4,700
Realty tax expense accounted for under IFRIC 21	**8,677**	8,499	**(10,152)**	(7,224)
U.S. retail - lease cancellation fees	**—**	—	**334**	—
Canadian retail - lease cancellation fees	**—**	—	**1,803**	531
Canadian office - lease cancellation fees	**—**	510	**408**	713
Canadian industrial - lease cancellation fees	**—**	—	**—**	470
Canadian hotel development	**1,046**	(38)	**1,819**	(412)
Adoption of IFRS 16	**—**	(2,491)	**—**	(7,473)
Other	**(1,040)**	(69)	**(424)**	724
NOI	**$150,059**	$145,384	**$404,778**	$405,364

The Company believes it is useful to provide an analysis of Comparative NOI, which eliminates non-recurring and non-cash items.

Comparative NOI for the three months ended September 30, 2019, increased by $1,951, to $138,858 compared to $136,907 in 2018 due to the following reasons:

- Multi-suite residential increased by $1,750 as a result of an increase in Canadian and U.S. rental rate growth, improved occupancy and operating efficiencies, partly offset by an increase in insurance expense and realty taxes;
- Retail increased by $1,186 mainly due to higher base rent, improved occupancy and higher operating expense recovery at the Canadian properties;
- Office increased by $77 mainly due to higher base rent and lower non-recoverable operating expenses;
- Industrial increased by $218 mainly due to higher base rent and lower non-recoverable operating expenses;
- Hotel decreased by $2,047 mainly as a result of higher vacancy primarily at hotels located in Alberta, including a hotel located in Red Deer, Alberta, resulting from the hotel being re-branded; and
- The change in the foreign exchange rate increased Comparative NOI for the U.S. properties by $767.

Comparative NOI for the nine months ended September 30, 2019, increased by $5,238, to $396,929 compared to $391,691 in 2018 due to the following:

- Multi-suite residential increased by $4,264 as a result of an increase in Canadian and U.S. rental rate growth, improved occupancy and operating efficiencies, partly offset by an increase in insurance expense and realty taxes;
- Retail increased by $1,767 due to higher base rent and improved occupancy at Canadian properties as well as additional revenue from new tenants at two U.S. properties;
- Office increased by $659 mainly due to higher base rents and lower non-recoverable operating expenses;
- Industrial increased by $195 due to higher base rent and lower non-recoverable operating expenses;
- Hotel decreased by $5,600 mainly as a result of higher vacancy primarily at hotels located in Alberta, including the expiry of a long-term lease at the Cortona Residence as well as a hotel located in Red Deer, Alberta, resulting from the hotel being re-branded; and
- The change in the foreign exchange rate increased Comparative NOI for the U.S. properties by $3,953.

LAND RENT ARBITRATION SETTLEMENT

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

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

NET OPERATING INCOME

Net operating income increased by $4,675, or 3.2%, during the three months ended September 30, 2019, to $150,059 compared to $145,384 generated in 2018, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the three months ended September 30	2019	2018
Multi-suite residential	**$52,343**	$50,740
Retail	**34,690**	31,558
Office	**33,834**	33,108
Industrial	**2,171**	2,215
Hotel	**18,344**	19,264
Adjusted NOI	**141,382**	136,885
IFRIC 21 adjustment - multi-suite residential	**7,313**	7,227
IFRIC 21 adjustment - retail	**1,364**	1,272
NOI	**$150,059**	$145,384

NOI from the multi-suite residential portfolio for the three months ended September 30, 2019, increased by $1,689, or 2.9% to $59,656, compared to $57,967 in 2018. The increase in NOI is due to an increase in IFRIC 21 adjustment of $86 and the change in Adjusted NOI described below.

Adjusted NOI from the multi-suite residential portfolio for the three months ended September 30, 2019, increased by $1,603, or 3.2%, to $52,343, compared to $50,740 in 2018. The increase in Adjusted NOI is primarily due to the following reasons:

- An increase in Canadian multi-suite residential properties of $1,255, primarily resulting from:
  - An increase of $852 mainly from rental rate growth, improved occupancy and lower operating expenses at properties located in Canada. The average rental rate increased by 4.2% when compared to the same period in 2018. During the three months ended September 30, 2019, the Company's Canadian portfolio turned over 373 suites, or 4.7% of total suites and achieved AMR growth of 14.7% on suite turnover; and
  - An increase of $403 due to the adoption of IFRS 16;
- A decrease in U.S. multi-suite residential properties of US$93 primarily resulting from;
  - A decrease of US$906 due to the sale of five properties located in Louisiana, during the first and second quarters of 2019; and
  - An increase of US$813 mainly from rental rate growth and improved occupancy at properties located in the U.S., as well as a realty tax refund received at a property located in Chicago, Illinois, partly offset by an

increase in insurance expense as well as an increase in realty taxes from higher assessed values. The average rental rate increased by 2.9% when compared to the same period in 2018; and

- An increase of $441 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the three months ended September 30, 2019, increased by $3,224, or 9.8% to $36,054, compared to $32,830 in 2018. The increase in NOI is due to an increase in IFRIC 21 adjustment of $92 and the change in Adjusted NOI described below.

Adjusted NOI from the retail portfolio for the three months ended September 30, 2019, increased by $3,132, or 9.9%, to $34,690, compared to $31,558 in 2018. The increase in Adjusted NOI is primarily due to the following reasons:

- An increase in Canadian retail properties of $2,860 primarily resulting from:
  - An increase of $1,891 due to adoption of IFRS 16;
  - An increase of $969 due to higher base rent, improved occupancy and higher operating expense recoveries;
- An increase in U.S. retail properties of US$163 primarily resulting from:
  - An increase of US$548 primarily due to additional rental revenue from new tenants and lower operating expenses predominantly at two U.S. properties; and
  - A decrease of US$385 primarily due to lower base rent and higher non-recoverable operating expenses at two U.S. properties; and
- An increase of $109 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the three months ended September 30, 2019, increased by $726, or 2.2%, to $33,834, compared to $33,108 in 2018, primarily due to the following reasons:

- An increase of $1,988 due to the acquisition of 41 Rue Victoria, Gatineau, Québec, Jean Edmonds Towers, Ottawa, Ontario and 99 Metcalfe Street, Ottawa, Ontario completed during and subsequent to the third quarter of 2018;
- An increase of $154 due to adoption of IFRS 16;
- A decrease of $906 mainly due to lower base rent, lower occupancy and lower operating expense recovery; and
- A decrease in lease cancellation fees of $510 primarily due to lease cancellation fee received from a tenant at a property located in Saint-Laurent, Québec in 2018.

NOI from the industrial portfolio for the three months ended September 30, 2019, decreased by $44, or 2%, to $2,171, compared to $2,215 in 2018, primarily due to the following reasons:

- A decrease of $237 due to the sale of a property located in Salaberry-de-Valleyfield, Québec during the third quarter of 2019; and
- An increase of $193 due to higher base rent and lower non-recoverable operating expenses.

NOI from the hotel portfolio for the three months ended September 30, 2019, decreased by $920, or 4.8% to $18,344, compared to $19,264 in 2018, primarily due to the following:

- A decrease of $1,201 mainly due to higher vacancy and lower revenue per available room (“RevPar”) primarily at hotels located in Alberta;
- A decrease of $846 due to the re-branding of a hotel located in Red Deer, Alberta;
- An increase of $1,084 at the newly re-developed dual branded Hilton Garden Inn and Homewood Suites by Hilton located in Ottawa, Ontario which commenced its operations on January 1, 2019; and
- An increase of $43 due to adoption of IFRS 16.

MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard’s management and advisory fee revenue for the three months ended September 30, 2019, decreased by $1,088, or 7.3%, to $13,910 compared to $14,998 in 2018. The decrease is mainly due to decrease in asset management, property management and leasing fees earned compared to 2018, partially offset by higher disposition fees.

The Company also generated a net profit from the sale of product and land of $856 during the three months ended September 30, 2019 (2018 - $437).

INTEREST AND OTHER INCOME

Interest and other income for the three months ended September 30, 2019, decreased by $37, or 1.1%, to $3,377 compared to $3,414 in 2018.

INTEREST EXPENSE

Interest expense consists of the following:

For the three months ended September 30	2019	2018
Mortgages payable	**$40,703**	$40,049
Unsecured Debentures	**8,941**	7,661
Convertible debentures, net of accretion	**2,455**	3,372
Bank indebtedness	**1,984**	1,227
Loans payable and other	**659**	797
Lease liabilities	**2,411**	98
Amortization of mark-to-market adjustments on mortgages, net	**(1,347)**	(1,684)
Amortization of deferred financing costs	**1,779**	1,796
	57,585	53,316
Less: Interest capitalized to properties under development	**(108)**	(336)
	$57,477	$52,980

Interest expense for the three months ended September 30, 2019, increased by $4,497 to $57,477, compared to $52,980 in 2018, mainly due to higher interest on lease liabilities due to adoption of IFRS 16, higher interest on mortgages payable, higher interest on Unsecured Debentures resulting from the issuance of the Series E unsecured debentures in January 2019, net of the Series A unsecured debentures repayment in December 2018, higher interest on bank indebtedness and lower amortization of mark-to-market adjustment which was partially offset by lower interest from convertible debentures due to the repayment of Temple’s Series E convertible debentures in April 2019.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the three months ended September 30, 2019, increased by $104, or 0.4% to $24,133, compared to $24,029 in 2018, primarily due to an increase in non-cash compensation expense related to the Company’s SARs plan of $1,553, partially offset by a decrease in other corporate expenses.

AMORTIZATION OF HOTEL PROPERTIES, CAPITAL ASSETS AND OTHER

Amortization of hotel properties, capital assets and other for the three months ended September 30, 2019, increased by $1,117 to $8,842, compared to $7,725 in 2018.

PROVISION FOR IMPAIRMENT

In accordance with IFRS, management assesses all hotel properties at the end of each reporting period to determine if there is any indication that an asset may be impaired. A recoverability analysis was completed in accordance with the procedures specified by IFRS which included all hotel properties.

During the third quarter of 2019, a recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of $19,059 should be recorded. Carrying values of seven hotel properties, primarily located in Fort McMurry, Alberta, were impacted due to lower occupancy as a result of increased supply and lower demand and general reduced economic activity in Western Canada.

FAIR VALUE GAIN (LOSS) ON REAL ESTATE PROPERTIES

Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including changes in projected cash flows as a result of leasing, capitalization rates, discount rates and terminal capitalization rates. During the three months ended September 30, 2019, the Company recognized a fair value loss of $4,787, compared to a fair value gain of $30,965 in 2018.

Fair value gain (loss) on real estate properties consists of the following:

For the three months ended September 30	2019	2018
Multi-suite residential	**$10,507**	$44,941
Retail	**(2,956)**	1,829
Office	**(15,338)**	(15,813)
Industrial	**1,538**	(292)
Properties under development	**(3)**	—
Land held for development	**1,465**	300
	(4,787)	$30,965

For the three months ended September 30, 2019, the Company recognized a net fair value gain of $10,507 in the residential portfolio. The fair value gain is comprised of $9,677 at the Canadian properties as a result of an increase in stabilized NOI and $830 at the U.S. properties, which was predominantly due to an increase in stabilized NOI, net of a $7,313 adjustment on realty taxes accounted for under IFRIC 21.

For the three months ended September 30, 2019, the Company recognized a net fair value loss of $15,338 in the office portfolio. The fair value loss is mainly due to lower stabilized NOI resulting from an increase in vacancy at a single tenant property located in Calgary, Alberta.

FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS

For the three months ended September 30, 2019, the Company recorded a fair value loss on the Morguard Residential REIT Units of $36,031, which includes a mark-to-market loss of $30,987 on the Units as a result of an upward trend in the trading price and the distributions made to external Unitholders of $5,044.

FAIR VALUE GAIN ON INVESTMENT IN MARKETABLE SECURITIES

Investment in marketable securities are classified as financial assets measured at fair value through profit and loss (“FVTPL”). For the three months ended September 30, 2019, the Company recorded a fair value gain on investment in marketable securities of $13,033 resulting from an increase in market value of the securities.

EQUITY LOSS FROM INVESTMENTS

Equity loss from investments consist of the following:

For the three months ended September 30	2019	2018
Joint ventures	**$782**	$437
Associates	**(29,230)**	(16,083)
	($28,448)	($15,646)

Equity loss from investments for the three months ended September 30, 2019, increased by $12,802 to $28,448, compared to $15,646 in 2018. The increase in equity loss is predominantly due to a higher fair value loss at the Company’s investment in Marquee at Block 37 during the three months ended September 30, 2019 compared to the same period in 2018, partially offset by an increase in operating income.

OTHER INCOME (EXPENSE)

Other income for the three months ended September 30, 2019, increased by $3,123 to $1,210, compared to other expense of $1,913 in 2018, primarily due to foreign exchange gain of $645 as compared to exchange loss of $1,981.

IFRS requires monetary assets and liabilities denominated in foreign currencies to be translated into Canadian dollars at the exchange rate in effect at the reporting date and any gain or loss is recognized in the consolidated statement of income (loss).

INCOME TAXES

For the three months ended September 30, 2019, the Company recorded total income tax expense of $3,587, compared to $9,298 in 2018. The decrease of $5,711 is comprised of an increase of $2,686 in current tax and a decrease of $8,397 in deferred tax.

The increase in current tax for the three months ended September 30, 2019 is primarily a result of the higher taxable income. The decrease in deferred tax for the three months ended September 30, 2019 is primarily a result of lower fair value increase related to Canadian and U.S. properties compared to the same period in 2018 and a decrease of the Alberta statutory tax rate, partially offset by the higher tax deduction on properties acquired during and subsequent to September 30, 2018.

PENSION PLANS

The Company's accounting policy under IFRS is to recognize actuarial gains/losses in the period in which they occur, and these gains/losses are reflected in the consolidated statement of comprehensive income. During the three months ended September 30, 2019, an actuarial gain of $9,480 was recorded in the consolidated statements of comprehensive income, compared to $5,916 for the same period in 2018.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

NET OPERATING INCOME

Net operating income decreased by $586 or 0.1%, during the nine months ended September 30, 2019, to $404,778, compared to $405,364 generated in 2018, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the nine months ended September 30	2019	2018
Multi-suite residential	**$155,692**	$149,246
Retail	**106,546**	95,681
Office	**101,418**	95,454
Industrial	**6,775**	7,217
Hotel	**44,499**	47,740
Adjusted NOI	**414,930**	395,338
Land rent arbitration settlement	**—**	17,250
IFRIC 21 adjustment - multi-suite residential	**(8,762)**	(5,866)
IFRIC 21 adjustment - retail	**(1,390)**	(1,358)
NOI	**$404,778**	$405,364

NOI for the nine months ended September 30, 2019, decreased by $17,250 due to the land rent arbitration settlement which resulted in a reversal of previously expensed land rent for the period from July 1, 2010 to April 30, 2018.

NOI from the multi-suite residential portfolio for the nine months ended September 30, 2019, increased by $3,550, or 2.5% to $146,930, compared to $143,380 in 2018. The increase in NOI is due to an increase in the IFRIC 21 adjustment of $2,896 and the change in Adjusted NOI described below.

Adjusted NOI from the multi-suite residential portfolio for the nine months ended September 30, 2019, increased by $6,446, or 4.3% to $155,692, compared to $149,246 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian multi-suite residential properties of $3,671 primarily resulting from:
  - An increase of $2,462 mainly from rental rate growth, improved occupancy and lower operating expenses at properties located in Canada. The average rental rate increased by 4.2% when compared to the same period in 2018. During the nine months ended September 30, 2019, the Company's Canadian portfolio turned over 954 suites, or 12.0% of total suites and achieved AMR growth of 15.1% on suite turnover; and
  - An increase of $1,209 due to the adoption of IFRS 16;

- An increase in U.S. multi-suite residential properties of US$50 primarily resulting from:
  - An increase of US$1,177 mainly from rental rate growth and improved occupancy at properties located in the U.S., partly offset by an increase in amortization of rental concessions, insurance expense as well as an increase in realty taxes resulting from higher assessed values. The average rental rate increased by 2.9% when compared to the same period in 2018;
  - An increase of US$917 due to the acquisition of Santorini Apartments and Vizcaya Lakes during the second quarter of 2018; and
  - A decrease of US$2,044 due to the sale of five properties located in Louisiana, during the first and second quarters of 2019; and
- An increase of $2,725 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the nine months ended September 30, 2019, increased by $10,833, or 11.5%, to $105,156, compared to $94,323 in 2018. The increase in NOI is due to an increase in the IFRIC 21 adjustment of $32 and the change in Adjusted NOI described below.

Adjusted NOI from the retail portfolio for the nine months ended September 30, 2019, increased by $10,865, or 11.4%, to $106,546, compared to $95,681 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian retail properties of $9,348 primarily resulting from:
  - An increase of $5,672 due to adoption of IFRS 16;
  - An increase in lease cancellation fees of $1,272 primarily due to $1,803 in lease cancellation fees received at three properties during 2019, offset by $531 received from tenants during the first and second quarters of 2018;
  - An increase of $1,064 due to non-recurring income from a prior year realty tax refund and a settlement of disputed charges; and
  - An increase of $1,340 due to higher base rent, improved occupancy and lower non-recoverable operating expenses;
- An increase in U.S. retail properties of US$723 primarily resulting from:
  - An increase of US$473 due to additional rental revenue from new tenants and lower operating expenses predominantly at two U.S. properties; and
  - An increase of US$250 in lease cancellation fees received; and
- An increase of $794 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the nine months ended September 30, 2019, increased by $5,964, or 6.2%, to $101,418, compared to $95,454 in 2018 due primarily to the following:

- An increase of $6,693 due to the acquisition of 5985 Explorer Drive, Mississauga, Ontario, 41 Rue Victoria, Gatineau, Québec, Jean Edmonds Towers, Ottawa, Ontario and 99 Metcalfe Street, Ottawa, Ontario completed during and subsequent to the first quarter of 2018;
- An increase of $463 due to adoption of IFRS 16;
- A decrease of $887 in the Canadian office properties due to lower base rent, lower occupancy and higher non recoverable operating expenses; and
- A decrease in lease cancellation fees of $305 primarily due to a $408 lease cancellation fee received from a tenant at a property in Saint-Laurent, Québec during 2019, offset by a $713 lease cancellation fee received from tenants at properties located in Saint-Laurent, Québec and Calgary, Alberta during 2018.

NOI from the industrial portfolio for the nine months ended September 30, 2019, decreased by $442, or 6.1%, to $6,775, compared to $7,217 in 2018 due to the following:

- A decrease of $470 due to a lease cancellation fee received from a tenant in 2018 at a property located in Ottawa, Ontario;
- A decrease of $226 due to the sale of a property located in Salaberry-de-Valleyfield, Québec during the third quarter of 2019;
- An increase of $155 is due to the acquisition of 1100 and 1101 Polytek Street, during first quarter of 2018; and
- An increase of $99 due to increased base rent and increased recoveries.

NOI from the hotel portfolio for the nine months ended September 30, 2019, decreased by $3,241, or 6.8%, to $44,499, compared to $47,740 in 2018 due primarily to the following:

- A decrease of $4,350 mainly due to higher vacancy and lower RevPar primarily at hotels located in Alberta, including the expiry of a long term lease at the Cortona Residence, Fort McMurray, Alberta;
- A decrease of $2,155 due to the re-branding of a hotel located in Red Deer, Alberta;
- An increase in net operating income of $2,231 at the newly re-developed dual branded Hilton Garden Inn and Homewood Suites by Hilton located in Ottawa, Ontario which commenced its operations on January 1, 2019;
- An increase of $904 mainly due to an increase in ADR and RevPar at hotels located outside of the province of Alberta; and
- An increase of $129 due to adoption of IFRS 16.

MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard's management and advisory fee revenue for the nine months ended September 30, 2019, decreased by $5,845, or 13.3%, to $37,991, compared to $43,836 in 2018, primarily due to lower asset management, property management, leasing and disposition fees earned compared to 2018.

The Company also generated a net profit from the sale of product and land of $1,737 during the nine months ended September 30, 2019 (2018 - $1,300).

INTEREST AND OTHER INCOME

Interest and other income for the nine months ended September 30, 2019, increased by $5,686, or 73.5%, to $13,420, compared to $7,734 in 2018. The increase was primarily due to higher income earned from investments and due to finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable.

INTEREST EXPENSE

Interest expense consists of the following:

For the nine months ended September 30	2019	2018
Mortgages payable	**$123,206**	$118,028
Unsecured Debentures	**25,804**	19,735
Convertible debentures, net of accretion	**9,640**	11,358
Bank indebtedness	**3,990**	4,486
Construction loans	**—**	756
Loans payable and other	**2,162**	2,185
Lease liabilities	**7,254**	290
Amortization of mark-to-market adjustments on mortgages, net	**(4,199)**	(5,852)
Amortization of deferred financing costs	**5,413**	5,200
Loss on extinguishment of mortgage payable	**561**	—
	173,831	156,186
Less: Interest capitalized to properties under development	**(423)**	(1,455)
	$173,408	$154,731

Interest expense for the nine months ended September 30, 2019, increased by $18,677, or 12.1%, to $173,408, compared to $154,731 in 2018, mainly due to higher interest on mortgages payable mainly from the financing of acquisitions completed during and subsequent to September 30, 2018, higher interest on lease liabilities due to adoption of IFRS 16, a loss on extinguishment of mortgages payable on the disposal of properties, lower amortization of mark-to-market adjustment and higher interest on Unsecured Debentures resulting from the issuance of the Series D and Series E unsecured debentures in May 2018 and January 2019, respectively, net of the Series A unsecured debentures repayment in December 2018, which was partly offset by lower interest from the repayment of Temple's Series F and E convertible debentures in April 2018 and April 2019, respectively, and lower interest on bank indebtedness.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the nine months ended September 30, 2019, increased by $3,897, or 5.6%, to $73,195, compared to $69,298 in 2018, primarily due to an increase in non-cash compensation expense related to the Company's SARs plan of $5,113, partially offset by a decrease in other corporate expenses.

AMORTIZATION OF HOTEL PROPERTIES, CAPITAL ASSETS AND OTHER

Amortization of hotel properties, capital assets and other for the nine months ended September 30, 2019, increased by $2,936 to $26,481, compared to $23,545 in 2018.

PROVISION FOR IMPAIRMENT

In accordance with IFRS, management assesses all hotel properties at the end of each reporting period to determine if there is any indication that an asset may be impaired. A recoverability analysis was completed in accordance with the procedures specified by IFRS which included all hotel properties.

During the third quarter of 2019, a recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of $19,059 should be recorded. Carrying values of seven hotel properties, primarily located in Fort McMurry, Alberta, were impacted due to lower occupancy as a result of increased supply and lower demand and general reduced economic activity in Western Canada.

FAIR VALUE GAIN (LOSS) ON REAL ESTATE PROPERTIES

Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including changes in projected cash flows as a result of leasing, capitalization rates, discount rates and terminal capitalization rates. During the nine months ended September 30, 2019, the Company recognized a net fair value gain on real estate properties of $59,482, compared to a net fair value gain of $168,240 in 2018.

Fair value gain (loss) on real estate properties consists of the following:

For the nine months ended September 30	2019	2018
Multi-suite residential	**$99,696**	$170,257
Retail	**(29,627)**	5,359
Office	**(15,200)**	(10,769)
Industrial	**1,771**	1,598
Properties under development	**(60)**	(305)
Land held for development	**2,902**	2,100
	$59,482	$168,240

For the nine months ended September 30, 2019, the Company recognized a net fair value gain of $99,696 in the residential portfolio. The fair value gain consists of $76,586 at the Canadian properties primarily as a result of an increase in stabilized NOI and $23,110 fair value gain at the U.S. properties which was predominantly due to a net increase in stabilized NOI and a $8,762 adjustment on realty taxes accounted for under IFRIC 21.

For the nine months ended September 30, 2019, the Company recognized a net fair value loss of $29,627 in the retail portfolio. The fair value loss consists of $28,279 at the Canadian properties predominantly due to 25 basis points increase in the capitalization rates at properties located in Alberta and one property located in Ottawa, Ontario and a fair value loss of $1,348 at the U.S. properties which was predominantly due to a $1,390 adjustment on realty taxes accounted for under IFRIC 21.

For the nine months ended September 30, 2019, the Company recognized a net fair value loss of $15,200 in the office portfolio. The fair value loss is mainly due to lower stabilized NOI resulting from an increase in vacancy at a single tenant property located in Calgary, Alberta.

FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS

For the nine months ended September 30, 2019, the Company recorded a fair value loss on the Morguard Residential REIT Units of $76,119, which includes a mark-to-market loss of $61,886 on the Units as a result of an upward trend in the trading price and the distributions made to external Unitholders of $14,233.

FAIR VALUE GAIN ON INVESTMENT IN MARKETABLE SECURITIES

Investment in marketable securities are classified as financial assets measured at FVTPL. For the nine months ended September 30, 2019, the Company recorded a fair value gain on investment in marketable securities of $16,018 resulting from an increase in market value of the securities.

EQUITY INCOME (LOSS) FROM INVESTMENTS

Equity income (loss) from investments consists of the following:

For the nine months ended September 30	2019	2018
Joint ventures	**($3,272)**	$1,762
Associates	**(28,388)**	(17,213)
	($31,660)	($15,451)

Equity loss from investments for the nine months ended September 30, 2019, increased by $16,209 to $31,660, compared to $15,451 in 2018. The increase in equity loss is mainly due to a higher fair value loss at the Company's investment in Marquee at Block 37 during the nine months ended September 30, 2019 compared to the same period in 2018, partially offset by an increase in operating income.

OTHER INCOME (EXPENSE)

Other income for the nine months ended September 30, 2019, decreased by $3,519 to $249, compared to other income of $3,768 in 2018, primarily due to a gain of $2,692 on the recognition of a finance lease upon the practical completion of the Company's development project, the Ancillary Services Building at Etobicoke General Hospital in 2018, as well as, an increase in foreign exchange loss of $3,259, which were partially offset by a gain of $508 on the sale of a hotel property and an increase in other income of $1,924 primarily from insurance proceeds.

IFRS requires monetary assets and liabilities denominated in foreign currencies to be translated into Canadian dollars at the exchange rate in effect at the reporting date, and any gain or loss is recognized in the consolidated statements of income (loss).

INCOME TAXES

For the nine months ended September 30, 2019, the Company recorded total income tax expense of $28,475, compared to $49,291 in 2018. The decrease of $20,816 comprises a decrease of $2,245 in current tax and a decrease of $18,571 in deferred tax.

The decrease in current tax for the nine months ended September 30, 2019 is primarily a result of higher interest expense in 2019, the higher capital cost allowance on properties acquired during and subsequent to September 30, 2018, and higher income in 2018 due to the land rent arbitration settlement. The decrease in deferred tax for the nine months ended September 30, 2019 is primarily a result of lower fair value increase related to Canadian and U.S. properties compared to the same period in 2018 and a decrease of the Alberta statutory tax rate, partially offset by the higher tax deduction on properties acquired during and subsequent to September 30, 2018 and a lower 2018 deferred tax due to a change of estimate.

PENSION PLANS

The Company's accounting policy under IFRS is to recognize actuarial gains/losses in the period in which they occur, and these gains/losses are reflected in the consolidated statements of comprehensive income. During the nine months ended September 30, 2019, an actuarial gain of $14,801 was recorded in the consolidated statements of comprehensive income, compared to $1,622 for the nine months ended September 30, 2018.

FUNDS FROM OPERATIONS

The following table provides an analysis of the Company's FFO by component:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Multi-suite residential	**$52,343**	$50,740	**$155,692**	$149,246
Retail	**34,690**	31,558	**106,546**	95,681
Office	**33,834**	33,108	**101,418**	95,454
Industrial	**2,171**	2,215	**6,775**	7,217
Hotel	**18,344**	19,264	**44,499**	47,740
Adjusted NOI	**141,382**	136,885	**414,930**	395,338
Other Revenue				
Land rent arbitration settlement	**—**	—	**—**	17,250
Management and advisory fees	**13,910**	14,998	**37,991**	43,836
Interest and other income	**3,377**	3,414	**13,420**	7,734
Sale of product and land, net of costs	**856**	437	**1,737**	1,300
Equity-accounted FFO(1)	**1,779**	(272)	**3,549**	3,248
	19,922	18,577	**56,697**	73,368
Expenses and Other				
Interest	**(57,477)**	(52,980)	**(173,408)**	(154,731)
Principal repayment of lease liabilities	**(537)**	—	**(537)**	—
Property management and corporate	**(24,133)**	(24,029)	**(73,195)**	(69,298)
Internal leasing costs	**841**	913	**2,466**	2,362
Amortization of capital assets	**(1,002)**	(1,191)	**(2,992)**	(3,533)
Current income taxes	**(2,946)**	(260)	**(7,689)**	(9,934)
Non-controlling interests' share of FFO	**(12,685)**	(15,453)	**(34,668)**	(41,640)
Non-controlling interest - Morguard Residential REIT	**(5,845)**	(5,586)	**(16,842)**	(16,601)
Unrealized changes in the fair value of financial instruments	**12,818**	(35)	**20,133**	2,002
Gain on finance lease	**—**	—	**—**	2,692
Other income (expense)	**565**	68	**1,885**	(39)
FFO	**$70,903**	$56,909	**$186,780**	$179,986
FFO per common share amounts – basic and diluted	**$6.29**	$4.98	**$16.55**	$15.69
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	**11,283**	11,424	**11,286**	11,470

(1) Equity-accounted FFO exclude fair value adjustments on real estate properties and amortization of hotel properties.

For the three months ended September 30, 2019, the Company recorded FFO of $70,903 ($6.29 per common share), compared to $56,909 ($4.98 per common share) in 2018. The increase in FFO of $13,994 is mainly due to the following:

- An increase in Adjusted NOI of $4,497, primarily due to net acquisition activity amounting to $452 and the impact of the adoption of IFRS 16, resulting in land rent expense of $2,491 being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease in management and advisory fees of $1,088, primarily due to lower asset management, property management and leasing fees earned, partially offset by higher disposition fees compared to 2018;
- An increase in equity accounted FFO of $2,051;
- An increase in interest expense of $4,497, mainly due to higher interest on lease liabilities (noted above), interest on mortgages, interest on Unsecured Debentures and interest on bank indebtedness, partially offset by lower interest on convertible debentures;
- An increase in current income taxes of $2,686;
- A decrease in the non-controlling interests' share of FFO of $2,768; and
- An increase of $12,853 in unrealized changes in the fair value of financial instruments.

The change in foreign exchange rate had a positive impact on FFO of $121 ($0.01 per common share).

For the nine months ended September 30, 2019, the Company recorded FFO of $186,780 ($16.55 per common share), compared to $179,986 ($15.69 per common share) in 2018. The increase in FFO of $6,794 is mainly due to the following:

- An increase in Adjusted NOI of $19,592, primarily due to net acquisition activity amounting to $4,967 and the impact of the adoption of IFRS 16, resulting in land rent expense of $7,473 being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease of $17,250 due to the reversal of land rent expense relating to the land rent arbitration settlement that was recognized in the second quarter of 2018;
- A decrease in management and advisory fees of $5,845, primarily due to lower asset management, property management, leasing and disposition fees earned compared to 2018;
- An increase in interest and other income of $5,686, primarily due to higher income earned from investments and finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable;
- An increase in interest expense of $18,677, mainly due to higher interest on lease liabilities (noted above), interest on Unsecured Debentures and interest on mortgages payable, partially offset by lower interest on convertible debentures;
- An increase in property management and corporate expense of $3,897, primarily due to an increase in non-cash compensation expense related to the Company’s SAR’s plan, partially offset by a decrease in other corporate expenses;
- A decrease in current income taxes of $2,245;
- A decrease in the non-controlling interests’ share of FFO of $6,972;
- An increase in unrealized changes in the fair value of financial instruments of $18,131;
- A decrease of $2,692 due to a gain on the recognition of a finance lease during the second quarter of 2018; and
- An increase in other income of $1,924 primarily from insurance proceeds.

The change in foreign exchange rate had a positive impact on FFO of $1,254 ($0.11 per common share).

Normalized FFO	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
FFO (from above)	**$70,903**	$56,909	**$186,780**	$179,986
Add/(deduct):				
Land lease arbitration settlement	**—**	—	**—**	(17,250)
Unrealized loss (gain) on investment in marketable securities	**(13,033)**	503	**(16,018)**	(280)
Gain on finance lease	**—**	—	**—**	(2,692)
Insurance proceeds	**(410)**	—	**(2,576)**	—
Lease cancellation fee	**—**	(397)	**(2,255)**	(1,483)
	57,460	57,015	**165,931**	158,281
Tax effect	**—**	67	**391**	4,890
Normalized FFO	**$57,460**	$57,082	**$166,322**	$163,171
Per common share amounts – basic and diluted	**$5.09**	$5.00	**$14.74**	$14.23

Normalized FFO for the three months ended September 30, 2019, was $57,460, or $5.09 per common share, versus $57,082, or $5.00 per common share, for the same period in 2018, which represents an increase of $378, or 0.7%.

Normalized FFO for the nine months ended September 30, 2019, was $166,322, or $14.74 per common share, versus $163,171, or $14.23 per common share, for the same period in 2018, which represents an increase of $3,151, or 1.9%.

The following table provides the Company's net income (loss) attributable to common shareholders reconciled to FFO:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Net income (loss) attributable to common shareholders	**($1,180)**	$46,750	**$102,028**	$238,962
Add/(deduct):				
Fair value loss (gain) on real estate properties, net(1)	**34,798**	(15,731)	**(24,922)**	(150,133)
Non-controlling interests' share of fair value gain (loss) on real estate properties, net	**(7,285)**	(5,520)	**(19,667)**	4,085
Fair value loss on Morguard Residential REIT Units	**30,987**	23,827	**61,886**	23,810
Distribution to Morguard Residential REIT's external Unitholders	**5,044**	4,461	**14,233**	13,380
Non-controlling interest - Morguard Residential REIT	**(5,845)**	(5,586)	**(16,842)**	(16,601)
Fair value loss on conversion option of MRG convertible debentures	**2,157**	596	**3,383**	470
Amortization of intangible asset	**1,042**	430	**3,131**	1,290
Amortization of hotel properties(2)	**7,014**	6,244	**21,007**	19,314
Non-controlling interests' share of amortization of hotel properties	**(1,289)**	(1,970)	**(4,522)**	(6,069)
Foreign exchange loss (gain)	**(645)**	1,981	**2,144**	(1,115)
Deferred income taxes	**641**	9,038	**20,786**	39,357
Non-controlling interests' share of deferred income tax recovery (provision)	**(515)**	(542)	**(677)**	235
Principal repayment of lease liabilities	**(537)**	—	**(537)**	—
Internal leasing costs	**841**	913	**2,466**	2,362
Realty taxes accounted for under IFRIC 21(3)	**(8,162)**	(7,982)	**9,554**	6,729
Provision for impairment	**19,059**	—	**19,059**	6,661
Non-controlling interests' share of provision for impairment	**(5,222)**	—	**(5,222)**	(2,751)
Gain on sale of hotel property	**—**	—	**(508)**	—
FFO	**$70,903**	$56,909	**$186,780**	$179,986
FFO per common share – basic and diluted	**$6.29**	$4.98	**$16.55**	$15.69
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	**11,283**	11,424	**11,286**	11,470

(1) Includes fair value adjustments on real estate properties for equity-accounted investments.
(2) Includes amortization of hotel properties for equity-accounted investments.
(3) Realty taxes accounted for under IFRIC 21 exclude non-controlling interests' share.

PART IV

BALANCE SHEET ANALYSIS

REAL ESTATE PROPERTIES

The Company's real estate properties, together with hotel properties and equity-accounted investments, represent approximately 95% of Morguard's total assets. Real estate properties include multi-suite residential, retail, office and industrial properties held to earn rental income and for capital appreciation. Real estate properties also include properties or land that is being constructed or developed for future use as income producing properties.

The following table details the Company's real estate assets:

As at	September 30, 2019	December 31, 2018
Real estate properties		
Multi-suite residential	**$4,548,932**	$4,543,672
Retail	**2,700,468**	2,589,422
Office	**2,278,857**	2,215,973
Industrial	**148,530**	162,235
	9,676,787	9,511,302
Properties under development	**62,648**	56,717
Land held for development	**80,070**	77,577
Real estate properties	**$9,819,505**	$9,645,596

Real estate properties increased by $173,909 at September 30, 2019, to $9,819,505, compared to $9,645,596 at December 31, 2018. The increase is primarily the result of the following:

- Acquisition of real estate property of $53,130 as a result of the following:

Property	Date of Acquisition	Asset Type	Location	Suites / Sq. Ft.	Purchase Price
99 Metcalfe Street	July 24, 2019	Office	Ottawa, ON	157,350	**$53,130**

- Capitalization of property enhancements, including capital expenditures and tenant improvements totalling $50,432;
- Development expenditures of $32,360;
- Dispositions of real estate properties totalling $79,813 as a result of the following asset sales;

Property	Date of Disposition	Asset Type	Suites / Sq. Sq. Ft.	Proceeds	Net Proceeds [(1)]
Villages of Willamsburg	February 1, 2019	Residential	194	**$13,510**	**$6,530**
Steeplechase	March 19, 2019	Residential	192	**15,062**	**5,645**
Magnolia Place	March 19, 2019	Residential	148	**8,208**	**2,274**
Garden Lane	March 27, 2019	Residential	261	**22,601**	**11,270**
Colonial Manor	April 30, 2019	Residential	48	**4,428**	**1,576**
2 Rue St. Augustin	June 21, 2019	Industrial	10,000	**90**	**90**
825 Des Érables	July 31, 2019	Industrial	242,521	**15,914**	**15,914**
				$79,813	**$43,299**

(1) Net of repayment and mortgages assumed.

- An increase from the initial recognition of right-of-use assets on the Company's land leases on the adoption of IFRS 16 of $153,610;
- A fair value gain on real estate properties of $59,077; and
- A decrease of $85,780 due to the change in the U.S. dollar foreign exchange rate.

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

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

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

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

As at	September 30, 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%**	**8.8%**	**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%**	**7.0%**	**5.0%**	**5.5%**	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	September 30, 2019			December 31, 2018		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.5%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**9.0%**	**5.3%**	**6.0%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.4%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**6.8%**	**6.0%**	**6.3%**	7.3%	6.0%	6.5%
Terminal cap rate	**6.0%**	**5.0%**	**5.5%**	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 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 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.

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

As at	**September 30, 2019**		December 31, 2018	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($234,377)**	**$261,705**	($241,337)	$270,194
Retail	**(90,821)**	**98,086**	(94,615)	102,416
Office	**(85,129)**	**92,350**	(84,780)	92,160
Industrial	**(5,990)**	**6,556**	(6,266)	6,826
	($416,317)	**$458,697**	($426,998)	$471,596

HOTEL PROPERTIES

Hotel properties consist of the following:

As at	**September 30, 2019**	December 31, 2018
Cost	**$797,190**	$788,412
Accumulated impairment provision	**(73,317)**	(54,258)
Accumulated amortization	**(87,329)**	(68,076)
Hotel properties	**$636,544**	$666,078

On March 11, 2019, the Company 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 first mortgage loan of $4,601. On disposition, the recoverable amount exceeded the carrying value of the property, resulting in a gain of $508. 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).

During the third quarter of 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 $19,059 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 Suites Hotel	Nomad Hotel & Suites	Vantage	Radisson	Merit
Recoverable amount	$12,100	$3,280	$4,150	$12,060	$8,000
Impairment provision	4,635	4,098	1,396	993	2,880
Cumulative impairment provision	5,745	8,216	3,893	2,230	3,719
Projected first year net operating income	$252	($540)	$108	$272	$319
Discount rate	11.0%	12.0%	11.5%	10.0%	11.5%

	Days Hotel & Suites	Wingate by Wyndham
Recoverable amount	$6,400	$8,900
Impairment provision	1,782	3,275
Cumulative impairment provision	1,782	7,207
Projected first year net operating income	($23)	$125
Discount rate	12.0%	9.5%

EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

Equity-accounted and other real estate fund investments consist of the following:

As at	September 30, 2019	December 31, 2018
Joint ventures	**$53,454**	$52,803
Associates	**100,999**	124,677
Equity-accounted investments	**154,453**	177,480
Other real estate fund investments	**105,011**	103,984
Equity-accounted and other fund investments	**$259,464**	$281,464

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

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$22,420**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**3,010**	7,031
Greypoint Capital L.P. [(1)]	Toronto, ON	Joint Venture	Other	**22.6%**	36.4%	**12,058**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**11,163**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,803**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**63,345**	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	**49.0%**	49.0%	**18,288**	53,476
MIL Industrial Fund II LP[(2)]	Various	Associate	Industrial	**18.8%**	18.8%	**19,366**	18,555
						$154,453	$177,480

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

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

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	**$177,480**	$187,365
Additions	**14,342**	7,786
Share of net loss	**(31,660)**	(22,654)
Distributions received	**(2,565)**	(4,472)
Foreign exchange gain (loss)	**(3,144)**	9,455
Balance, end of period	**$154,453**	$177,480

MORTGAGES PAYABLE

Mortgages payable totalled $4,187,541 at September 30, 2019, compared to $4,362,701 at December 31, 2018, a decrease of $175,160. The decrease was predominantly due to the repayment of mortgages discharged and matured of $222,302, scheduled principal repayments of $82,542 and a decrease of $38,407 from the change in the foreign exchange rate, partially offset by net proceeds from new financing of $168,393.

MORTGAGE CONTINUITY SCHEDULE

As at	September 30, 2019	December 31, 2018
Opening mortgage balance	**$4,362,701**	$4,056,028
New mortgage financing	**169,492**	477,769
New mortgage financing costs	**(1,099)**	(2,797)
Mortgages discharged and matured	**(222,302)**	(196,704)
Scheduled principal repayments	**(82,542)**	(109,578)
Mortgages assumed on acquisition	**—**	32,264
Change in foreign exchange rate	**(38,407)**	108,745
Mortgages mark-to-market adjustment, net	**(4,199)**	(7,480)
Deferred financing costs (including extinguishment)	**3,897**	4,454
Closing mortgage balance	**$4,187,541**	$4,362,701

MORTGAGE REPAYMENT SCHEDULE

As at September 30, 2019	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of the year)	$27,519	$349,653	$377,172	4.04%
2020	105,488	292,512	398,000	5.12%
2021	98,666	392,449	491,115	4.37%
2022	92,251	383,813	476,064	3.66%
2023	70,034	649,216	719,250	3.57%
Thereafter	222,112	1,511,958	1,734,070	3.63%
	$616,070	$3,579,601	4,195,671	3.84%
Mark-to-market adjustment, net			13,252	
Deferred financing costs			(21,382)	
			$4,187,541	

The Company's first mortgages are registered against specific real estate assets and hotel properties. As at September 30, 2019, mortgages payable bear interest at rates ranging between 2.25% and 8.95% per annum with a weighted average interest rate of 3.84% (December 31, 2018 - 3.87%) and mature between 2019 and 2058 with a weighted average term to maturity of 4.8 years (December 31, 2018 - 5.2 years). Approximately 94% of the Company's mortgages have fixed interest rates.

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 September 30, 2019, Temple was not in compliance with four (December 31, 2018 - seven) debt service covenants affecting four (December 31, 2018 - seven) mortgage loans amounting to $67,973 (December 31, 2018 - $104,525). None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $33,361 scheduled to retire after September 30, 2020.

Short-term fluctuations in working capital are funded through pre-established operating lines of credit. The Company anticipates meeting all future obligations. The Company has no off balance sheet financing arrangements.

MORTGAGE MATURITY SCHEDULE

The following table details the Company's contractual maturities over the next two years.

	2019			2020		
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Multi-suite residential	3	$101,549	3.21%	1	$8,828	4.25%
Retail	3	77,076	3.62%	1	28,439	4.07%
Office	2	49,267	3.75%	5	119,029	4.96%
Hotels[1]	8	87,252	5.16%	8	136,216	5.60%
	16	$315,144	3.94%	15	$292,512	5.14%

(1) Temple mortgages payable in breach of debt covenants required under IFRS to be included in the current portion of mortgages payable have been presented in the above table based on their contractual maturity.

The following table details the new and refinancing activities completed during the nine months ended September 30, 2019.

Date	Asset Type	Location	New Interest Rate	Maturing Interest Rate	Term (years)	Mortgage Amount
January 4, 2019	Office	Edmonton, AB	3.90%	3.61%	3.0	$11,253
September 26, 2019	Office	Ottawa, ON	2.89%	—	10.0	28,600
January 14, 2019	Hotel	Fort McMurray, AB	6.00%	4.40%	1.0	6,850
January 14, 2019	Hotel	Lloydminster, AB	6.00%	4.80%	1.0	7,965
January 14, 2019	Hotel	Red Deer, AB	6.00%	4.65%	1.0	27,984
July 12, 2019	Retail	Ottawa, ON	3.43%	3.59%	4.0	129,639
Weighted Averages and Total			**3.90%**	**3.83%**	**4.2**	**$212,291**

The following table details the mortgages repaid at maturity and extinguished early during the nine months ended September 30, 2019.

Date	Asset Type	Location	Mortgage Amount
March 27, 2019	Residential	Gretna, LA	$11,331
January 4, 2019	Office	Edmonton, AB	16,253
January 14, 2019	Hotel	Fort McMurray, AB	6,850
January 14, 2019	Hotel	Lloydminster, AB	7,965
January 14, 2019	Hotel	Red Deer, AB	27,984
March 11, 2019	Hotel	Calgary, AB	7,000
July 12, 2019	Retail	Ottawa, ON	129,639
September 30, 2019	Hotel	Fort McMurray, AB	15,795
September 30, 2019	Hotel	Fort McMurray, AB	3,000
September 30, 2019	Hotel	Fort McMurray, AB	2,000
Various [1]	Hotel	Fort McMurray, AB	1,500
Various [1]	Hotel	Lloydminster, AB	3,750
Various [1]	Hotel	Red Deer, AB	2,250
Weighted Averages and Total			**$235,317**

[1] Represents a mortgage paydown made each quarter during 2019.

UNSECURED DEBENTURES

The Company's Unsecured Debentures consist of the following:

As at	Maturity Date	Coupon Interest Rate	September 30, 2019	December 31, 2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Unamortized financing costs			**(2,868)**	(2,303)
			$822,132	$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, a related party, acquired $12,500 aggregate principal amount of the Series E senior unsecured debentures. The Company has the option to redeem the Series E senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.70%.

For the three and nine months ended September 30, 2019, interest on the Unsecured Debentures of $8,941 (2018 - $7,661) and $25,804 (2018 - $19,735), respectively, are included in interest expense.

The covenants that govern the Unsecured Debentures are calculated using the Company's published results prepared in accordance with IFRS adjusted as required to account for the Company's Public Entity Investments using the equity method of accounting and other adjustments defined by the Indenture. The presentation of the Non-Consolidated balance sheet does not classify short-term and long-term assets and liabilities. In addition, other assets as presented in the Non-Consolidated balance sheet group the following items that are presented as a separate financial statement line in the Company's consolidated balance sheet: mortgages and loans receivable; amounts receivable; prepaid expenses and other; and cash.

The Company must maintain an interest coverage ratio computed on a Non-Consolidated Basis above 1.65 times, an indebtedness to aggregate assets ratio computed on a Non-Consolidated Basis not to exceed 65% and a minimum equity requirement computed on a Non-Consolidated Basis 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.

Non-Consolidated Basis adjustments include the following:

- An adjustment (as defined in the Indenture) to account for the Company's Public Entity Investments using the equity method of accounting. The adjustment requires the Public Entity Investments which are consolidated under IFRS to each respective financial statement line presented within the balance sheet and statement of income to be presented on a single line within equity-accounted investments;
- An adjustment (as defined in the Indenture) to the balance sheet to exclude deferred tax assets and liabilities, goodwill and to add back accumulated amortization of hotel properties;
- An adjustment (as defined in the Indenture) to the statement of income to exclude other non-cash items (such as the Company's SARs expense, IFRIC 21 and any gain or loss attributed to the sale or disposition of any asset or liability), non-recurring items (such as acquisition-related costs and debt settlement or other costs), and to include the distributions received from Morguard REIT and Morguard Residential REIT.

The covenants computed on a Non-Consolidated Basis are as follows:

Non-Consolidated Basis	Covenant Requirements	September 30, 2019	September 30, 2018
Interest coverage ratio(1)	1.65	**2.75**	3.19
Indebtedness to aggregate assets ratio(2)	Less than or equal to 65%	**41.5%**	39.9%
Adjusted shareholders' equity(3)	Not less than $300,000	**$3,669,988**	$3,471,105

(1) For the twelve months ended September 30, 2019 and September 30, 2018, respectively.
(2) As defined in the Indenture, adjusted to exclude goodwill and deferred income tax assets and to add back accumulated amortization of hotel properties.
(3) As defined in the Indenture, adjusted to exclude deferred income tax assets and liabilities and to add back accumulated amortization of hotel properties.

The Company's unencumbered properties on a Non-Consolidated Basis as at September 30, 2019, are $470,119 (December 31, 2018 - $515,293).

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, hotel properties and other assets totalling $148,305 (on a Non-Consolidated Basis) and a corresponding lease liability. In addition, commencing January 1, 2019, land lease and office lease expenses (previously included in EBITDA) are recorded in interest expense.

The adoption of IFRS 16 had a negative impact on the indebtedness to aggregate asset ratio, which would have been 40.3% excluding the adoption of IFRS 16.

The adoption of IFRS 16 had a negative impact to the interest coverage ratio, which would have been 2.97 times excluding the adoption of IFRS 16. The interest coverage ratio is calculated on a trailing twelve months basis and the nine months ended September 30, 2019 includes land rent as interest expense.

The Company's financial results on a Non-Consolidated Basis are as follows:

MORGUARD NON-CONSOLIDATED FINANCIAL STATEMENTS
BALANCE SHEET

As at September 30, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
ASSETS						
Real estate properties	$9,819,505	($2,897,666)	($2,902,829)	$—	($84,203)	$3,934,807
Hotel properties	636,544	—	—	(373,817)	(26,504)	236,223
Equity-accounted and other fund investments	259,464	(22,419)	(41,811)	(11,263)	1,480,989	1,664,960
Investment in Class C LP Units	—	—	—	—	87,742	87,742
Other assets	655,644	(35,340)	(125,932)	(44,179)	124,265	574,458
Total assets	$11,371,157	($2,955,425)	($3,070,572)	($429,259)	$1,582,289	$6,498,190
LIABILITIES						
Mortgage payable and Class C LP Units	$4,187,541	($1,077,254)	($1,244,619)	($302,776)	$29,121	$1,592,013
Construction financing, loans and bank indebtedness	181,442	(83,947)	—	(79,000)	109,500	127,995
Class B LP Units	—	—	(341,878)	—	341,878	—
Unsecured Debentures	822,132	—	—	—	—	822,132
Convertible debentures	195,247	(170,277)	(88,618)	—	63,648	—
Lease Liabilities	169,117	(11,146)	(9,469)	(1,589)	404	147,317
Morguard Residential REIT Units	554,314	—	—	—	(554,314)	—
Deferred income tax liabilities	734,381	—	(121,951)	—	(612,430)	—
Accounts payable and accrued liabilities	253,255	(57,300)	(51,225)	(16,710)	10,725	138,745
Total liabilities	7,097,429	(1,399,924)	(1,857,760)	(400,075)	(611,468)	2,828,202
Equity / Adjusted shareholders' equity	4,273,728	(1,555,501)	(1,212,812)	(29,184)	2,193,757	3,669,988
Total liabilities and equity	$11,371,157	($2,955,425)	($3,070,572)	($429,259)	$1,582,289	$6,498,190

COMPUTATION FOR INTEREST COVERAGE RATIO

Twelve months ended September 30, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
Revenue from real estate properties	$872,173	($275,751)	($246,482)	$—	($6,773)	$343,167
Revenue from hotel properties	241,751	—	—	(156,546)	—	85,205
Property operating expenses	(378,993)	124,177	114,541	—	(8,582)	(148,857)
Hotel operating expenses	(187,542)	—	—	124,131	—	(63,411)
Net operating income	547,389	(151,574)	(131,941)	(32,415)	(15,355)	216,104
Management and advisory fees and distributions	56,251	—	—	—	46,065	102,316
Interest and other income	16,633	(127)	(617)	419	6,136	22,444
Sales of product and land, net of costs	2,139	—	—	—	—	2,139
Property management and corporate(1)	(96,562)	4,492	14,159	3,604	(11,526)	(85,833)
Other income (expense)(2)	3,358	—	—	(2,595)	—	763
Distributions from Morguard REIT and Morguard Residential REIT	—	—	—	—	49,915	49,915
EBITDA	$529,208	($147,209)	($118,399)	($30,987)	$75,235	$307,848
Interest expense	$229,141	($57,826)	($69,688)	($26,377)	$36,895	$112,145
Interest capitalized to development projects	663	(663)	—	—	—	—
Interest expense for interest coverage ratio	$229,804	($58,489)	($69,688)	($26,377)	$36,895	$112,145

(1) Morguard consolidated property management and corporate expense for the year ended September 30, 2019, includes a non-cash fair value adjustment relating to the Company's SARs liability and has been adjusted to add back the increase in SARs expense of $7,822.

(2) Excludes acquisition-related costs, debt settlement or other costs, any gain or loss attributed to the sale or disposition of any asset or liability, other non-cash items and non-recurring items.

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	September 30, 2019	December 31, 2018
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**$111,629**	$110,166
Morguard Residential REIT (1)	March 31,2023	$20.20	4.50%	$85,500	$5,000	**83,618**	79,769
Temple - Series E (2)		—	—	—	—	**—**	38,064
						$195,247	$227,999

(1) As at September 30, 2019, the liability includes the fair value of the conversion option of $5,852 (December 31, 2018 - $2,469).
(2) Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

MORGUARD REIT

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

MORGUARD RESIDENTIAL REIT

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

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

TEMPLE HOTELS INC.

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

For the three and nine months ended September 30, 2019, interest on convertible debentures net of accretion of $2,455 (2018 - $3,372) and $9,640 (2018 - $11,358), respectively, are included in interest expense.

MORGUARD RESIDENTIAL REIT UNITS

As at September 30, 2019, the Company owned a 44.8% (December 31, 2018 - 46.9%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units (December 31, 2018 - 6,675,166 Units) and 17,223,090 Class B LP Units (December 31, 2018 - 17,223,090 Class B LP Units). Although the Company owns less than 50% of Morguard Residential REIT, it continues to consolidate its investment on the basis of *de facto* control.

The non-controlling interest in Morguard Residential REIT Units has been presented as a liability. 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 September 30, 2019, the Company valued the non-controlling interest in Morguard Residential REIT Units at $554,314 (December 31, 2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value loss for the three and nine months ended September 30, 2019 of $36,031 (2018 - $28,288) and $76,119 (2018 - $37,190), respectively, in the consolidated statements of income.

BANK INDEBTEDNESS

As at September 30, 2019, the Company has operating lines of credit totalling $374,000 (December 31, 2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at September 30, 2019, the maximum amount that can be borrowed on the operating lines of credit is $356,169 (December 31, 2018 - $344,911) which includes deducting issued letters of credit in the amount of $13,790 (December 31, 2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at September 30, 2019, the Company had borrowed $135,662 (December 31, 2018 - $225,160) on its operating lines of credit.

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

LEASE LIABILITIES

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

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	**$9,754**	$8,970
Adoption of IFRS 16	**161,614**	—
Principal payments	**(1,555)**	—
Additions	**277**	—
Dispositions	**(684)**	—
Foreign exchange (gain) loss	**(289)**	784
Balance, end of period	**$169,117**	$9,754

EQUITY

Total equity increased by $44,930 to $4,273,728 at September 30, 2019, compared to $4,228,798 at December 31, 2018.

The increase in equity was primarily the result of:

- Net income for the nine months ended September 30, 2019, of $106,010;
- Contribution from non-controlling interest of $15,930; and
- An actuarial gain on defined benefit pension plans of $14,801.

These items were partially offset by:

- Unrealized foreign currency translation loss of $42,628;
- Change in ownership of Morguard REIT of $4,008;
- Increase in subsidiary ownership interest of $15,497;
- Repurchase of common shares through the Company's NCIB (defined below) amounting to $2,093;

- Non-controlling interest distributions of $20,660; and
- Dividends paid of $5,080.

During the nine months ended September 30, 2019, 11,071 common shares were repurchased through the Company’s normal course issuer bid (“NCIB”) for cash consideration of $2,093.

At September 30, 2019, and November 6, 2019, 11,282,459 common shares were outstanding.

PART V

LIQUIDITY

Morguard uses a combination of existing cash, cash generated from operations, mortgages, bank indebtedness, project-specific financing and equity to finance its activities. For the three and nine months ended September 30, 2019, Morguard received approximately $13,533 and $40,159 in recurring distributions and dividends from subsidiaries and affiliated entities.

Net cash flows provided by operating activities represent the primary source of liquidity to fund dividends and maintenance capital expenditures (excluding new acquisition and development spending) on the Company's real estate properties. The Company's net cash flows provided by operating activities are dependent upon the occupancy level of its rental properties, rental rates on its leases, collectibility of rent from its tenants, level of operating expenses and other factors. Material changes in these factors may adversely affect the Company's cash flows provided by operating activities and liquidity. The Company's cash dividend policy reflects a strategy of maintaining a relatively constant debt level as a percentage of total gross assets. Accordingly, the Company does not repay maturing debt from cash flow but rather with proceeds from refinancing such debt or financing unencumbered properties.

THREE MONTHS ENDED SEPTEMBER 30, 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the three months ended September 30, 2019, was $76,444, compared to $62,518 in 2018. The cash provided by operating activities has been used to meet the Company's liquidity requirements, which consisted primarily of property re-leasing costs, maintenance costs and dividends to shareholders.

Cash Used in Investing Activities

Cash used in investing activities during the three months ended September 30, 2019, totalled $168,100, compared to cash used in investing activities of $67,556 in 2018. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of $71,277;
- Additions to hotel properties of $2,507;
- Additions to capital and intangible assets of $1,134;
- Net proceeds from the sale of real estate properties of $15,914;
- Investment in properties under development of $15,901;
- Investment in equity-accounted and other fund investments, net of $5,528; and
- Investment in marketable securities of $87,667.

Cash Provided by Financing Activities

Cash provided by financing activities during the three months ended September 30, 2019, totalled $32,291, compared to cash provided by financing of $8,939 in 2018. The cash provided by financing activities reflects:

- Proceeds from new mortgage, net of financing cost of $157,446;
- Repayment of mortgages on maturity of $129,639;
- Repayment of mortgages due to extinguishments of $25,795;
- Mortgage principal repayments of $27,829;
- Principal payment of lease liabilities of $537;
- Net repayment of bank indebtedness of $11,232;
- Proceeds from issuance of Morguard Residential REIT Units, net of cost of $74,528;
- Net proceeds from loans payable of $7,000;
- Dividends paid of $1,670;
- Distributions to non-controlling interest of $6,338; and
- An increase in restricted cash of $3,630.

NINE MONTHS ENDED SEPTEMBER 30, 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the nine months ended September 30, 2019, was $186,535, compared to $187,522 in 2018. The cash provided by operating activities has been used to meet the Company's liquidity requirements, which consisted primarily of property re-leasing costs, maintenance costs and dividends to shareholders.

Cash Used in Investing Activities

Cash used in investing activities during the nine months ended September 30, 2019, totalled $192,896, compared to cash used in investing activities of $405,073 in 2018. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of $99,055;
- Additions to hotel properties of $14,229;
- Additions to capital and intangible assets of $1,722;
- Net proceeds from the sale of real estate properties of $54,630;
- Net proceeds from the sale of hotel properties of $1,849;
- Investment in properties under development of $32,360;
- Investment in equity-accounted and other fund investments, net of $14,342, and
- Investment in marketable securities of $87,667.

Cash Provided by Financing Activities

Cash provided by financing activities during the nine months ended September 30, 2019, totalled $26,882, compared to cash provided by financing of $203,535 in 2018. The cash provided by financing activities reflects:

- Proceeds from new mortgages, net financing cost of $168,393;
- Repayment of mortgages on maturity of $145,892;
- Repayment of mortgages due to extinguishments of $46,626;
- Mortgage principal repayments of $82,542;
- Principal payment of lease liabilities of $1,555;
- Net repayment of bank indebtedness of $89,498;
- Proceeds from issuance of Morguard Residential REIT Units, net of cost of $74,528;
- Proceeds from issuance of unsecured debentures, net of costs of $223,575;
- Redemption of convertible debentures of $39,636;
- Net repayment of loans payable of $11,732;
- Dividends paid of $5,010;
- Distributions to non-controlling interest of $17,910;
- Contribution from non-controlling interest of $15,930;
- Common shares repurchased for cancellation of $2,093;
- Investment in Morguard REIT of $4,008;
- Increase in subsidiary ownership interest of $8,014; and
- Increase in restricted cash of $1,015.

PART VI

TRANSACTIONS WITH RELATED PARTIES

Related party transactions that are in the normal course of operations are subject to the same processes and controls as other transactions; that is, they are subject to standard approval procedures and management oversight, but are also considered by management for reasonability against fair value. Related party transactions that are found to be material are subject to review and approval by the Company's Audit Committee, which comprises Independent Directors.

PAROS ENTERPRISES LIMITED

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. On January 25, 2019, Paros acquired $12,500 aggregate principal amount of the Company's Series E unsecured debentures.

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 September 30, 2019 was $nil (December 31, 2018 - $12,500). During the three and nine months ended September 30, 2019, the Company incurred net interest expense of $nil (2018 - $nil) and $30 (2018 - $nil), respectively.

TWC ENTERPRISES LIMITED

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the three and nine months ended September 30, 2019, the Company received a management fee of $326 (2018 - $215) and $979 (2018 - $623), respectively, and for the three and nine months ended September 30, 2019, paid rent and operating expenses of $166 (2018 - $160) and $511 (2018 - $499), respectively.

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at September 30, 2019 was $45,780 (December 31, 2018 - $47,809). During the three and nine months ended September 30, 2019, the Company paid net interest of $386 (2018 - earned net interest of $17) and $1,186 (2018 - earned net interest of $155), respectively.

SHARE/UNIT PURCHASE AND OTHER LOANS

As at September 30, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,477 (December 31, 2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable on the consolidated balance sheets. As at September 30, 2019, the fair market value of the common shares/Units held as collateral is $104,589.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, have been prepared in accordance with IAS 34, *Interim Financial Reporting,* as issued by the IASB. The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies as described below, and should be read in conjunction with the most recent annual consolidated financial statements.

The MD&A for the year ended December 31, 2018, contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being the accounting policies relating to *de facto* control, estimates of fair value of real estate properties; estimating deferred tax assets and liabilities, revenue recognition, valuation of financial instruments and the determination of whether an acquisition represents a business combination or an asset acquisition. Management determined that as at September 30, 2019, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2018.

FINANCIAL INSTRUMENTS

The following describes the Company’s recognized and unrecognized financial instruments.

The Company’s financial assets and financial liabilities comprise cash, restricted cash, amounts receivable, mortgages and loans receivable, finance lease receivable, accounts payable and accrued liabilities, bank indebtedness, construction financing payable, mortgages payable, loans payable, lease liabilities, Unsecured Debentures and convertible debentures (excluding any conversion option).

Financial assets must be classified and measured based on three categories: amortized cost, fair value through other comprehensive income (“FVTOCI”) and FVTPL. Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Fair values of financial assets and financial 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 value 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 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 September 30, 2019, market rates for debts of similar terms. Based on these assumptions, the fair value as at September 30, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,307,635 (December 31, 2018 - $4,428,532), compared with the carrying value of $4,195,671 (December 31, 2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price. As at September 30, 2019, the fair value of the Unsecured Debentures has been estimated at $843,336 (December 31, 2018 - $603,624) compared with the carrying value of $825,000 (December 31, 2018 - $600,000).

The fair value of the convertible debentures liability is based on their market trading prices. As at September 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $199,533 (December 31, 2018 - $229,797), compared with the carrying value of $195,500 (December 31, 2018 - $235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the financial receivable using September 30, 2019, market rates for debt on similar terms. Based on these assumptions, as at September 30, 2019, the fair value of the finance lease receivable has been estimated at $56,419 (December 31, 2018 - $55,941).

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

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

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

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

Amendments to IAS 19, *Employee Benefits (2011)* (“IAS 19”)

The amendments in *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* are:

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

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

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

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")

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

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

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

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

RISKS AND UNCERTAINTIES

All investment properties are subject to a degree of risk and uncertainty. Income from real estate assets is affected by various factors, including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand particularly affect income property investments. The major categories of risk the Company encounters in conducting its business and some of the actions it takes to mitigate these risks are outlined in the Company's MD&A for the year ended December 31, 2018 and the Company's most recent Annual Information Form, dated February 22, 2019 and provide a more detailed discussion of these and other risks.

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented and assessed the design and effectiveness of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. This undertaking has enabled the Chief Executive Officer and Chief Financial Officer to attest that the design and effectiveness of the internal controls with regard to financial information are effective using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework (2013). In order to ensure that the consolidated financial statements and MD&A present fairly, in all material respects, the financial position of the Company and the results of its operations, management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, has concluded that their design is adequate and effective as of and for the nine months ended September 30, 2019. The Company's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design is effective as of and for the nine months ended September 30, 2019.

An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to other reports filed or submitted under securities legislation. This policy aims in particular at identifying material information and validating the related reporting. The Disclosure Committee, established in 2005, is responsible for ensuring compliance with this policy. Senior management acts as the Disclosure Committee, ensuring compliance with this policy and reviewing main documents to be filed with regulatory authorities to ensure that all significant information regarding operations is communicated in a timely manner.

PART VIII

SUMMARY OF QUARTERLY INFORMATION

The following table provides a summary of operating results for the last eight quarters.

(In thousands of dollars, except per common share amounts)	Total Revenue	NOI	Adjusted NOI	FFO	Net Income (Loss)	Net Income (Loss) Attributable to Common Shareholders	Net Income (Loss) to Common Shareholders per share - basic/diluted
September 30, 2019	**$299,410**	**$150,059**	**$141,382**	**$70,903**	**($2,291)**	**($1,180)**	**($0.10)**
June 30, 2019	301,386	150,145	140,673	62,311	69,342	69,722	6.17
March 31, 2019	290,645	104,574	132,875	53,566	38,959	33,486	2.97
December 31, 2018	301,302	142,611	134,863	52,410	68,451	80,889	7.13
September 30, 2018	294,033	145,384	136,885	56,909	54,688	46,750	4.11
June 30, 2018	287,725	160,235	135,185	73,166	95,894	75,604	6.62
March 31, 2018	274,818	99,745	123,268	49,911	125,025	116,608	10.10
December 31, 2017	287,523	139,663	131,934	68,596	109,084	115,300	9.73

SUMMARY OF QUARTERLY RESULTS

A significant portion of the Company's real estate properties are located in the United States. As a result, the Company is exposed to foreign currency exchange rate fluctuations with respect to its quarterly results derived from its properties located in the U.S.

Quarterly results fluctuate due to acquisitions and dispositions, the impact of foreign exchange rate fluctuations and new mortgage financing as well as mortgage refinancing. In addition, net income includes a number of non-cash components, such as, fair value gain/loss on Morguard Residential REIT Units, fair value gain/loss on real estate properties, fair value gain (loss) on investments in marketable securities and other fund investments, an IFRIC 21 adjustment to realty taxes, equity income (loss) from investment, provision for impairment and deferred taxes.

During the first quarter of 2019, the Company adopted IFRS 16, *Leases,* using a modified retrospective approach. The adoption of the standard on January 1, 2019, resulted in the initial recognition of land and office right of-of-use assets and their corresponding lease liabilities of $161,614. The Company recognized lease liabilities for those leases previously classified as operating leases and as a result the lease payments that were previously being recorded as operating expenses are now being classified under interest expense.

During the second quarter of 2018, the Company reached a land rent arbitration settlement 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. In accordance with the Majority Decision, for the period from July 1, 2010 to April 30, 2018, the Company recorded annual land rent of $10,962 and reversed $17,250 (pre-tax) of land rent previously expensed during the second quarter of 2018.

Significant Real Estate Property Transactions During the Nine Months Period Ended September 30, 2019

During the first quarter the Company disposed four multi-suite residential properties in U.S. consisting of 795 suites.

During the second quarter the Company disposed one multi-suite residential property in U.S. consisting of 48 suites.

During the third quarter the Company disposed one industrial property in Canada consisting of 242,521 square feet of commercial leasable area.

During the third quarter the Company acquired an office property consisting of approximately 157,350 square feet of commercial area.

Significant Real Estate Property Transactions During the Year Ended December 31, 2018

During the fourth quarter of 2018, the Company acquired 49.9% co-ownership interest in an office property consisting of approximately 552,000 square feet of commercial area.

During the fourth quarter of 2018, the Company completed the re-development of a dual branded Hilton Garden Inn and Homewood Suites by Hilton totalling 346 rooms in downtown Ottawa, Ontario, and the hotel was transferred from properties under development to hotel properties.

During the third quarter of 2018, the Company acquired an office property consisting of approximately 134,000 square feet of commercial area.

During the second quarter of 2018, the Company acquired a vacant 116 suite multi-suite residential property, which is designated as property under development and two multi-suite residential properties with a total of 351 suites.

During the first quarter of 2018, the Company acquired one industrial property consisting of approximately 243,000 square feet of commercial area and one office property consisting of approximately 128,000 square feet of commercial area.

Revenue and Net Operating Income

The regional distribution of the Company's properties serves to add stability to the Company's cash flows because it reduces the Company's vulnerability to economic fluctuations affecting any particular region. In addition, the Company's tenant mix is diversified therefore limiting its exposure to any one tenant.

The Company has seen steady revenue growth during the last eight quarters. The change in foreign exchange rates and the impact of acquisition net of disposal of properties (described above) also contributed to the increase in revenue during the last eight quarters. Lower revenue during the first quarter of 2018 and 2019 was largely attributed to hotel revenues that are seasonally impacted by the colder months. Higher revenue during the fourth quarter of 2017 was due to variable disposition fees earned.

Similar to the reasons described above, NOI has profiled steady growth over the last eight quarters resulting from an increase in revenue and the Company's ability to control expenses as a percentage of revenue. The impact of foreign exchange rates and of acquisitions and dispositions also factor into the variance from quarter to quarter. The first quarter results (three months ended March 31) are impacted by IFRIC 21, whereby the Company records the entire annual realty tax expense for its U.S. properties on January 1, except for U.S. properties acquired during the year in which the realty taxes are not recorded in the year of acquisition. As a result, the second, third and fourth quarters typically have no realty tax expense which results in higher NOI and NOI margins. Adjusted NOI which excludes IFRIC 21 and the land rent arbitration settlement, is presented in the table above to illustrate a more comparable quarter to quarter analysis.

Net Income (Loss) Attributable to Common Shareholders

Taking into account the above factors for revenue and NOI variations, the change in net income (loss) is predominantly due to a change in non-cash components described below:

- The Company valued the Morguard Residential Units (presented as a liability under IFRS) based on the market value of the TSX-listed Units; over the last eight quarters there has been an upward trend in the trading price of the Morguard Residential Units resulting in a fair value loss recorded to net income (loss);
- The Company has recorded a fair value gain on real estate properties for the years ended December 31, 2018 and 2017 as well as for the nine months ended September 30, 2019, due to an overall increase in stabilized NOI and compression in capitalization rates;
- The Company has recorded deferred tax expense coinciding with the fair value gains on the Company's real estate properties. In addition, during the fourth quarter of 2017, the Company recorded a deferred tax recovery of $78,219 resulting from a U.S. federal tax rate decrease from 35% to 21% enacted on December 22, 2017;
- The Company recorded an impairment provision on Temple's hotel properties of $19,059, $23,007 and $6,661 during the third quarter of 2019 and fourth quarter and second quarter of 2018, respectively.

SUBSEQUENT EVENTS

On October 1, 2019, the Company completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,304 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.

The Company entered into a binding agreement to acquire the 51% interest not already owned in the Marquee at Block 37, a multi-suite residential property comprising 691 suites located in Chicago, Illinois, for a purchase price of US$135,150 excluding closing costs. The acquisition is expected to close during the fourth quarter of 2019. Concurrent with the acquisition, the Company secured mortgage financing in the amount of US$165,000 (at the Company's 100% interest), with a fixed term of 10 years and an interest rate of 3.27%.

CONSOLIDATED FINANCIAL STATEMENTS

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BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Real estate properties	5	**$9,819,505**	$9,645,596
Hotel properties	6	**636,544**	666,078
Equity-accounted and other fund investments	7	**259,464**	281,464
Other assets	8	**405,558**	285,103
		11,121,071	10,878,241
Current assets			
Mortgages and loans receivable		**1,646**	1,686
Amounts receivable		**74,922**	76,879
Prepaid expenses and other		**42,282**	15,551
Cash		**131,236**	110,401
		250,086	204,517
		$11,371,157	$11,082,758
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable	9	**$3,494,039**	$3,573,185
Unsecured debentures	10	**822,132**	597,697
Convertible debentures	11	**195,247**	225,936
Lease liabilities	13	**166,944**	9,754
Morguard Residential REIT Units	12	**554,314**	417,481
Deferred income tax liabilities		**734,381**	717,943
		5,967,057	5,541,996
Current liabilities			
Mortgages payable	9	**693,502**	789,516
Convertible debentures	11	**—**	2,063
Loans payable	21	**45,780**	60,309
Accounts payable and accrued liabilities	14	**255,428**	234,916
Bank indebtedness	15	**135,662**	225,160
		1,130,372	1,311,964
Total liabilities		**7,097,429**	6,853,960
EQUITY			
Shareholders’ equity		**3,500,240**	3,431,366
Non-controlling interest		**773,488**	797,432
Total equity		**4,273,728**	4,228,798
		$11,371,157	$11,082,758

Contingencies 25

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF INCOME (LOSS)

In thousands of Canadian dollars, except per common share amounts

	Note	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Revenue from real estate properties	17	**$215,253**	$209,610	**$651,186**	$620,510
Revenue from hotel properties	17	**65,525**	64,689	**184,351**	180,538
Land rent arbitration settlement	25	**—**	—	**—**	17,250
Property operating expenses					
Property operating costs		**(45,763)**	(45,498)	**(137,859)**	(134,875)
Utilities		**(14,019)**	(14,190)	**(43,786)**	(42,742)
Realty taxes		**(23,756)**	(23,802)	**(109,262)**	(102,519)
Hotel operating expenses		**(47,181)**	(45,425)	**(139,852)**	(132,798)
Net operating income		**150,059**	145,384	**404,778**	405,364
OTHER REVENUE					
Management and advisory fees	17	**13,910**	14,998	**37,991**	43,836
Interest and other income		**3,377**	3,414	**13,420**	7,734
Sales of product and land		**1,345**	1,322	**4,493**	3,958
		18,632	19,734	**55,904**	55,528
EXPENSES					
Interest	18	**57,477**	52,980	**173,408**	154,731
Property management and corporate		**24,133**	24,029	**73,195**	69,298
Cost of sales of product and land		**489**	885	**2,756**	2,658
Amortization of hotel properties	6	**6,798**	6,104	**20,358**	18,722
Amortization of capital assets and other		**2,044**	1,621	**6,123**	4,823
Provision for impairment	6	**19,059**	—	**19,059**	6,661
		110,000	85,619	**294,899**	256,893
OTHER INCOME (EXPENSE)					
Fair value gain (loss), net	19	**(30,157)**	2,046	**113**	132,582
Equity loss from investments	7	**(28,448)**	(15,646)	**(31,660)**	(15,451)
Other income (expense)	20	**1,210**	(1,913)	**249**	3,768
		(57,395)	(15,513)	**(31,298)**	120,899
Income before income taxes		**1,296**	63,986	**134,485**	324,898
Provision for income taxes	22				
Current		**2,946**	260	**7,689**	9,934
Deferred		**641**	9,038	**20,786**	39,357
		3,587	9,298	**28,475**	49,291
Net income (loss) for the period		**($2,291)**	$54,688	**$106,010**	$275,607
Net income (loss) attributable to:					
Common shareholders		**($1,180)**	$46,750	**$102,028**	$238,962
Non-controlling interest		**(1,111)**	7,938	**3,982**	36,645
		($2,291)	$54,688	**$106,010**	$275,607
Net income (loss) per common share attributable to:					
Common shareholders - basic and diluted	23	**($0.10)**	$4.11	**$9.04**	$20.83

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Net income (loss) for the period	**($2,291)**	$54,688	**$106,010**	$275,607
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to net income (loss):				
Unrealized foreign currency translation gain (loss)	**17,364**	(23,329)	**(42,628)**	41,913
Gain on interest rate swap agreement	**—**	—	**—**	161
	17,364	(23,329)	**(42,628)**	42,074
Deferred income tax recovery (provision)	**(51)**	163	**141**	(348)
	17,313	(23,166)	**(42,487)**	41,726
Items that will not be reclassified subsequently to net income (loss):				
Actuarial gain on defined benefit pension plans	**9,480**	5,916	**14,801**	1,622
Deferred income tax provision	**(2,181)**	(1,568)	**(3,814)**	(429)
	7,299	4,348	**10,987**	1,193
Other comprehensive income (loss)	**24,612**	(18,818)	**(31,500)**	42,919
Total comprehensive income for the period	**$22,321**	$35,870	**$74,510**	$318,526
Total comprehensive income (loss) attributable to:				
Common shareholders	**$22,417**	$29,537	**$73,160**	$279,029
Non-controlling interest	**(96)**	6,333	**1,350**	39,497
	$22,321	$35,870	**$74,510**	$318,526

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Retained Earnings	Accumulated Other Comprehensive Income	Share Capital	Total Shareholders' Equity	Non-controlling Interest	Total
Shareholders' equity, January 1, 2018		$2,785,739	$189,982	$106,952	$3,082,673	$851,696	$3,934,369
Changes during the period:							
Net income		238,962	—	—	238,962	36,645	275,607
Other comprehensive income		—	40,067	—	40,067	2,852	42,919
Dividends		(5,147)	—	—	(5,147)	—	(5,147)
Distributions		—	—	—	—	(22,674)	(22,674)
Issuance of common shares		—	—	113	113	—	113
Repurchase of common shares		(75,845)	—	(4,044)	(79,889)	—	(79,889)
Adjustment on adoption of IFRS 9		17,315	(17,315)	—	—	—	—
Change in ownership of Morguard REIT		13,682	—	—	13,682	(30,800)	(17,118)
Change in ownership of Temple Hotels Inc.		312	—	—	312	(2,480)	(2,168)
Shareholders' equity, September 30, 2018		$2,975,018	$212,734	$103,021	$3,290,773	$835,239	$4,126,012
Changes during the period:							
Net income (loss)		80,889	—	—	80,889	(12,438)	68,451
Other comprehensive income		—	60,620	—	60,620	4,785	65,405
Dividends		(1,695)	—	—	(1,695)	—	(1,695)
Distributions		—	—	—	—	(7,104)	(7,104)
Issuance of common shares		—	—	26	26	—	26
Repurchase of common shares		(11,875)	—	(611)	(12,486)	—	(12,486)
Change in ownership of Morguard REIT		13,239	—	—	13,239	(23,050)	(9,811)
Shareholders' equity, December 31, 2018		$3,055,576	$273,354	$102,436	$3,431,366	$797,432	$4,228,798
Changes during the period:							
Net income		**102,028**	**—**	**—**	**102,028**	**3,982**	**106,010**
Other comprehensive loss		**—**	**(28,868)**	**—**	**(28,868)**	**(2,632)**	**(31,500)**
Dividends	16(a)	**(5,080)**	**—**	**—**	**(5,080)**	**—**	**(5,080)**
Distributions		**—**	**—**	**—**	**—**	**(20,660)**	**(20,660)**
Issuance of common shares	16(a)	**—**	**—**	**70**	**70**	**—**	**70**
Repurchase of common shares	16(a)	**(1,993)**	**—**	**(100)**	**(2,093)**	**—**	**(2,093)**
Contribution from non-controlling interest	16(b)	**—**	**—**	**—**	**—**	**15,930**	**15,930**
Change in ownership of Temple Hotels Inc.	16(b)	**(2,498)**	**—**	**—**	**(2,498)**	**2,485**	**(13)**
Change in ownership of Morguard REIT	16(b)	**3,544**	**—**	**—**	**3,544**	**(7,552)**	**(4,008)**
Increase in subsidiary ownership interest		**—**	**—**	**—**	**—**	**(15,497)**	**(15,497)**
Tax impact of increase in subsidiary ownership interest		**1,771**	**—**	**—**	**1,771**	**—**	**1,771**
Shareholders' equity, September 30, 2019		**$3,153,348**	**$244,486**	**$102,406**	**$3,500,240**	**$773,488**	**$4,273,728**

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS
In thousands of Canadian dollars

	Note	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
OPERATING ACTIVITIES					
Net income (loss) for the period		**($2,291)**	$54,688	**$106,010**	$275,607
Add (deduct) items not affecting cash	24(a)	**75,110**	17,272	**99,174**	(56,534)
Distributions from equity-accounted investments	7	**860**	732	**2,565**	2,652
Land held for residential development and sale		**—**	(66)	**—**	(168)
Additions to development property - inventory		**—**	(591)	**—**	(2,691)
Additions to tenant incentives and leasing commissions	5	**(1,996)**	(2,044)	**(4,507)**	(5,698)
Net change in operating assets and liabilities	24(b)	**4,761**	(7,473)	**(16,707)**	(25,646)
Cash provided by operating activities		**76,444**	62,518	**186,535**	187,522
INVESTING ACTIVITIES					
Additions to real estate properties and tenant improvements	5	**(71,277)**	(57,426)	**(99,055)**	(296,274)
Additions to hotel properties	6	**(2,507)**	(4,174)	**(14,229)**	(14,756)
Additions to capital and intangible assets		**(1,134)**	(679)	**(1,722)**	(3,348)
Proceeds from the sale of real estate properties, net	5	**15,914**	3,699	**54,630**	5,714
Proceeds from the sale of hotel properties, net	6	**—**	—	**1,849**	—
Investment in properties under development	5	**(15,901)**	(17,903)	**(32,360)**	(67,735)
Investment in equity-accounted and other fund investments, net	7	**(5,528)**	(2,084)	**(14,342)**	(5,971)
Investment in marketable securities		**(87,667)**	(19,804)	**(87,667)**	(34,567)
Increase in mortgages and loans receivable		**—**	(42,085)	**—**	(82,466)
Decrease in mortgages and loans receivable		**—**	72,900	**—**	94,330
Cash used in investing activities		**(168,100)**	(67,556)	**(192,896)**	(405,073)
FINANCING ACTIVITIES					
Proceeds from new mortgages		**158,239**	151,496	**169,492**	406,546
Financing costs on new mortgages		**(793)**	(792)	**(1,099)**	(2,196)
Repayment of mortgages					
Repayments on maturity		**(129,639)**	(57,584)	**(145,892)**	(196,704)
Repayments due to mortgage extinguishments		**(25,795)**	—	**(46,626)**	—
Principal instalment repayments		**(27,829)**	(26,551)	**(82,542)**	(81,190)
Principal payment of lease liabilities		**(537)**	—	**(1,555)**	—
Proceeds from bank indebtedness		**83,737**	83,861	**290,385**	481,714
Repayment of bank indebtedness		**(94,969)**	(91,740)	**(379,883)**	(434,372)
Proceeds from issuance of Morguard Residential REIT Units, net of cost	12	**74,528**	—	**74,528**	—
Proceeds from issuance of unsecured debentures, net of costs	10	**—**	—	**223,575**	198,805
Proceeds from issuance of convertible debentures, net of costs	11	**—**	—	**—**	77,125
Redemption of convertible debentures	11	**—**	—	**(39,636)**	(88,796)
Proceeds from construction financing		**—**	670	**—**	1,481
Repayment of construction financing		**—**	(37,957)	**—**	(37,957)
Proceeds from (repayment of) loans payable, net		**7,000**	8,272	**(11,732)**	8,272
Dividends paid		**(1,670)**	(1,675)	**(5,010)**	(5,034)
Distributions to non-controlling interest		**(6,338)**	(7,956)	**(17,910)**	(20,189)
Contribution from non-controlling interest	16(b)	**—**	—	**15,930**	—
Common shares repurchased for cancellation	16(a)	**—**	(8,013)	**(2,093)**	(79,889)
Investment in Morguard REIT	16(b)	**—**	(1,344)	**(4,008)**	(17,118)
Investment in Temple Hotels Inc.	16(b)	**(13)**	—	**(13)**	(2,168)
Increase in subsidiary ownership interest	16(b)	**—**	—	**(8,014)**	—
Increase in restricted cash		**(3,630)**	(1,748)	**(1,015)**	(4,795)
Cash provided by financing activities		**32,291**	8,939	**26,882**	203,535
Net increase (decrease) in cash during the period		**(59,365)**	3,901	**20,521**	(14,016)
Net effect of foreign currency translation on cash balance		**495**	2,309	**314**	(182)
Cash, beginning of period		**190,106**	114,042	**110,401**	134,450
Cash, end of period		**$131,236**	$120,252	**$131,236**	$120,252

See accompanying notes to the condensed consolidated financial statements.

NOTES

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

NOTE 1
NATURE AND DESCRIPTION OF COMPANY

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

NOTE 2
STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on November 6, 2019.

Foreign Exchange

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

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at September 30	**$0.7551**	$0.7725
- As at December 31	**—**	0.7330
- Average for the three months ended September 30	**0.7573**	0.7651
- Average for the nine months ended September 30	**0.7523**	0.7766
United States dollar to Canadian dollar exchange rates:		
- As at September 30	**1.3243**	1.2945
- As at December 31	**—**	1.3642
- Average for the three months ended September 30	**1.3204**	1.3070
- Average for the nine months ended September 30	**1.3292**	1.2876

NOTE 3
ADOPTION OF ACCOUNTING STANDARDS
Current Accounting Policy Changes

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

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

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 4
SUBSIDIARIES WITH NON-CONTROLLING INTEREST

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

As at September 30, 2019, the Company owned a 44.8% (December 31, 2018 - 46.9%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units (December 31, 2018 - 6,675,166 units) and 17,223,090 Class B LP Units (December 31, 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"). Refer to the Company's most recent annual audited consolidated financial statements for the factors that continue to support the conclusion that the Company has *de facto* control of Morguard Residential REIT.

During the three months ended September 30, 2019, Morguard Residential REIT recorded distributions of $6,322, or $0.1698 per Unit (2018 - $5,563, or $0.165 per Unit), of which $1,278 was paid to the Company (2018 - $1,102) and $5,044 was paid to the remaining Unitholders (2018 - $4,461). In addition, during the three months ended September 30, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $2,924 (2018 - $2,842).

During the nine months ended September 30, 2019, Morguard Residential REIT recorded distributions of $17,777, or $0.5094 per Unit (2018 - $16,684, or $0.495 per Unit), of which $3,544 was paid to the Company (2018 - $3,304) and $14,233 was paid to the remaining Unitholders (2018 - $13,380). In addition, during the nine months ended September 30, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $8,773 (2018 - $8,526).

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

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

During the three months ended September 30, 2019, Morguard REIT recorded distributions of $14,571, or $0.24 per Unit (2018 - $14,571, or $0.24 per Unit), of which $8,471 was paid to the Company (2018 - $8,168) and $6,100 was paid to the remaining Unitholders (2018 - $6,403).

During the nine months ended September 30, 2019, Morguard REIT recorded distributions of $43,707, or $0.72 per Unit (2018 - $43,702, or $0.72 per Unit), of which $25,277 was paid to the Company (2018 - $24,488) and $18,430 was paid to the remaining Unitholders (2018 - $19,214).

Temple Hotels Inc. ("Temple")

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

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

As at	September 30, 2019			December 31, 2018		
	MRT	MRG	Temple	MRT	MRG	Temple
Non-current assets	**$2,919,007**	**$2,944,640**	**$451,548**	$2,938,915	$2,973,694	$484,730
Current assets	**34,913**	**125,932**	**38,597**	38,153	37,775	26,345
Total assets	**$2,953,920**	**$3,070,572**	**$490,145**	$2,977,068	$3,011,469	$511,075
Non-current liabilities	**$1,134,434**	**$1,675,267**	**$167,872**	$1,096,488	$1,699,959	$178,507
Current liabilities	**278,762**	**182,493**	**231,431**	319,607	183,649	296,536
Total liabilities	**$1,413,196**	**$1,857,760**	**$399,303**	$1,416,095	$1,883,608	$475,043
Equity	**$1,540,724**	**$1,212,812**	**$90,842**	$1,560,973	$1,127,861	$36,032
Non-controlling interest	**$647,107**	**$669,654**	**$24,881**	$662,904	$598,793	$14,691

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

For the three months ended September 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	**$66,363**	**$61,135**	**$41,403**	$67,273	$61,172	$45,490
Expenses	**(43,680)**	**(47,755)**	**(59,806)**	(43,441)	(47,307)	(43,017)
Fair value gain (loss) on real estate properties, net	**(14,928)**	**9,842**	**—**	(16,867)	28,026	—
Fair value loss on Class B LP Units	**—**	**(24,629)**	**—**	—	(16,879)	—
Net income (loss) for the period	**$7,755**	**($1,407)**	**($18,403)**	$6,965	$25,012	$2,473
Non-controlling interest	**$3,244**	**$186**	**($5,054)**	$3,027	$13,287	$1,005

For the three months ended September 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Cash provided by operating activities	**$23,689**	**$11,141**	**$3,605**	$18,545	$9,364	$7,128
Cash provided (used in) investing activities	**2,624**	**(10,397)**	**(1,413)**	(15,916)	(7,640)	(1,475)
Cash provided by (used in) financing activities	**(30,526)**	**(4,824)**	**7,976**	3,639	(5,477)	1,612
Net increase (decrease) in cash during the period	**($4,213)**	**($4,080)**	**$10,168**	$6,268	($3,753)	$7,265

For the nine months ended September 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	**$203,825**	**$184,353**	**$116,532**	$204,547	$179,239	$125,795
Expenses	**(135,484)**	**(162,047)**	**(143,117)**	(131,623)	(171,109)	(132,899)
Fair value gain (loss) on real estate properties, net	**(45,210)**	**68,427**	**—**	(802)	133,854	—
Fair value loss on Class B LP Units	**—**	**(46,502)**	**—**	—	(16,879)	—
Net income (loss) for the period	**$23,131**	**$44,231**	**($26,585)**	$72,122	$125,105	($7,104)
Non-controlling interest	**$9,859**	**$24,422**	**($8,225)**	$31,694	$66,412	($3,264)

For the nine months ended September 30			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Cash provided by operating activities	**$57,460**	**$37,385**	**$4,261**	$62,836	$38,644	$10,402
Cash provided by (used in) investing activities	**(14,488)**	**15,099**	**(1,932)**	(47,875)	(32,520)	(6,555)
Cash provided by (used in) financing activities	**(43,150)**	**(48,903)**	**8,058**	(7,992)	(12,557)	4,243
Net increase (decrease) in cash during the period	**($178)**	**$3,581**	**$10,387**	$6,969	($6,433)	$8,090

NOTE 5
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at	September 30, 2019	December 31, 2018
Income producing properties	**$9,676,787**	$9,511,302
Properties under development	**62,648**	56,717
Land held for development	**80,070**	77,577
	$9,819,505	$9,645,596

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

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2018	**$9,511,302**	**$56,717**	**$77,577**	**$9,645,596**
Additions:				
Acquisitions	**53,130**	**—**	**—**	**53,130**
Capital expenditures	**37,722**	**—**	**—**	**37,722**
Development expenditures	**—**	**32,251**	**109**	**32,360**
Tenant improvements, incentives and leasing commissions	**12,710**	**—**	**—**	**12,710**
Transfers	**25,755**	**(25,755)**	**—**	**—**
Dispositions	**(79,813)**	**—**	**—**	**(79,813)**
Adoption of IFRS 16 (Note 3)	**153,610**	**—**	**—**	**153,610**
Fair value gain (loss), net	**56,235**	**(60)**	**2,902**	**59,077**
Foreign currency translation	**(84,757)**	**(505)**	**(518)**	**(85,780)**
Other	**(9,107)**	**—**	**—**	**(9,107)**
Balance as at September 30, 2019	**$9,676,787**	**$62,648**	**$80,070**	**$9,819,505**

Transactions Completed During the Nine Months Ended September 30, 2019

Acquisitions

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.

On July 24, 2019, the Company acquired an office property consisting of 157,350 square feet located in Ottawa, Ontario, for a purchase price of $53,130, including closing costs.

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

On June 21, 2019, the Company sold 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.

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

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

Capitalization Rates

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

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

As at September 30, 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 8.8% (December 31, 2018 - 3.5% to 12.0%), resulting in an overall weighted average capitalization rate of 5.5% (December 31, 2018 - 5.3%).

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

	September 30, 2019					December 31, 2018				
As at	**Occupancy Rates**		**Capitalization Rates**			Occupancy Rates		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	**98.0%**	**92.0%**	**6.8%**	**3.5%**	**4.5%**	98.0%	90.0%	7.8%	3.5%	4.5%
Retail	**100.0%**	**85.0%**	**8.8%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**7.0%**	**5.0%**	**5.5%**	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	September 30, 2019			December 31, 2018		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.5%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**9.0%**	**5.3%**	**6.0%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.4%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**6.8%**	**6.0%**	**6.3%**	7.3%	6.0%	6.5%
Terminal cap rate	**6.0%**	**5.0%**	**5.5%**	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 September 30, 2019, would decrease by $416,317 and increase by $458,697, respectively.

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

As at	September 30, 2019		December 31, 2018	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($234,377)**	**$261,705**	($241,337)	$270,194
Retail	**(90,821)**	**98,086**	(94,615)	102,416
Office	**(85,129)**	**92,350**	(84,780)	92,160
Industrial	**(5,990)**	**6,556**	(6,266)	6,826
	($416,317)	**$458,697**	($426,998)	$471,596

NOTE 6
HOTEL PROPERTIES

Hotel properties consist of the following:

As at September 30, 2019	Cost	Accumulated Impairment Provision	Accumulated Amortization	Net Book Value
Land	**$97,111**	**($2,407)**	**$—**	**$94,704**
Buildings	**589,807**	**(63,897)**	**(43,903)**	**482,007**
Furniture, fixtures, equipment and other	**108,676**	**(7,013)**	**(43,383)**	**58,280**
Right-of-use asset - land lease	**1,596**	**—**	**(43)**	**1,553**
	$797,190	**($73,317)**	**($87,329)**	**$636,544**

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 nine months ended September 30, 2019, are summarized as follows:

As at September 30, 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**	**—**	**4,414**	**(17,515)**	**(4,982)**	**(9,987)**	**482,007**
Furniture, fixtures, equipment and other	**61,297**	**—**	**9,815**	**(1,544)**	**(960)**	**(10,328)**	**58,280**
Right-of-use asset - land lease	**—**	**2,280**	**—**	**—**	**(684)**	**(43)**	**1,553**
	$666,078	**$2,280**	**$14,229**	**($19,059)**	**($6,626)**	**($20,358)**	**$636,544**

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

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

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

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 third quarter of 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 $19,059 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 Suites Hotel	Nomad Hotel & Suites	Vantage	Radisson	Merit
Recoverable amount	$12,100	$3,280	$4,150	$12,060	$8,000
Impairment provision	$4,635	$4,098	$1,396	$993	$2,880
Cumulative impairment provision	$5,745	$8,216	$3,893	$2,230	$3,719
Projected first year net operating income	$252	($540)	$108	$272	$319
Discount rate	11.0%	12.0%	11.5%	10.0%	11.5%

	Days Hotel & Suites	Wingate by Wyndham
Recoverable amount	$6,400	$8,900
Impairment provision	$1,782	$3,275
Cumulative impairment provision	$1,782	$7,207
Projected first year net operating income	($23)	$125
Discount rate	12.0%	9.5%

NOTE 7
EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at	September 30, 2019	December 31, 2018
Joint ventures	**$53,454**	$52,803
Associates	**100,999**	124,677
Equity-accounted investments	**154,453**	177,480
Other real estate fund investments	**105,011**	103,984
Equity-accounted and other fund investments	**$259,464**	$281,464

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

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$22,420**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**3,010**	7,031
Greypoint Capital L.P.[(1)]	Toronto, ON	Joint Venture	Other	**22.6%**	36.4%	**12,058**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**11,163**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,803**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**63,345**	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	**49.0%**	49.0%	**18,288**	53,476
MIL Industrial Fund II LP[(2)]	Various	Associate	Industrial	**18.8%**	18.8%	**19,366**	18,555
						$154,453	$177,480

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

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

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	**$177,480**	$187,365
Additions	**14,342**	7,786
Share of net loss	**(31,660)**	(22,654)
Distributions received	**(2,565)**	(4,472)
Foreign exchange gain (loss)	**(3,144)**	9,455
Balance, end of period	**$154,453**	$177,480

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

As at	September 30, 2019			December 31, 2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Non-current assets	**$193,457**	**$694,592**	**$888,049**	$206,391	$778,155	$984,546
Current assets	**26,481**	**14,532**	**41,013**	29,438	9,756	39,194
Total assets	**$219,938**	**$709,124**	**$929,062**	$235,829	$787,911	$1,023,740
Non-current liabilities	**$64,349**	**$327,991**	**$392,340**	$116,410	$343,393	$459,803
Current liabilities	**56,729**	**118,720**	**175,449**	8,720	116,734	125,454
Total liabilities	**$121,078**	**$446,711**	**$567,789**	$125,130	$460,127	$585,257
Net assets	**$98,860**	**$262,413**	**$361,273**	$110,699	$327,784	$438,483
Equity-accounted investments	**$53,454**	**$100,999**	**$154,453**	$52,803	$124,677	$177,480

For the three months ended September 30		2019			2018	
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$9,185**	**$9,951**	**$19,136**	$8,826	$9,282	$18,108
Expenses	**(6,089)**	**(7,750)**	**(13,839)**	(5,844)	(11,340)	(17,184)
Fair value loss on real estate properties, net	**(1,094)**	**(75,817)**	**(76,911)**	(2,022)	(35,466)	(37,488)
Net income (loss) for the period	**$2,002**	**($73,616)**	**($71,614)**	$960	($37,524)	($36,564)
Income (loss) in equity-accounted investments	**$782**	**($29,230)**	**($28,448)**	$437	($16,083)	($15,646)

For the nine months ended September 30		2019			2018	
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$26,079**	**$29,371**	**$55,450**	$26,540	$26,824	$53,364
Expenses	**(17,730)**	**(26,188)**	**(43,918)**	(17,608)	(25,023)	(42,631)
Fair value loss on real estate properties, net	**(14,200)**	**(76,134)**	**(90,334)**	(4,818)	(37,146)	(41,964)
Net income (loss) for the period	**($5,851)**	**($72,951)**	**($78,802)**	$4,114	($35,345)	($31,231)
Income (loss) in equity-accounted investments	**($3,272)**	**($28,388)**	**($31,660)**	$1,762	($17,213)	($15,451)

(b) Income Recognized from Other Fund Investments:

Other Real Estate Fund Investments

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Distribution income	**$713**	$732	**$2,181**	$2,130
Fair value gain (loss) for the period (Note 19)	**(215)**	468	**4,115**	1,722
Income from other real estate fund investments	**$498**	$1,200	**$6,296**	$3,852

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

NOTE 8
OTHER ASSETS

Other assets consist of the following:

As at	September 30, 2019	December 31, 2018
Accrued pension benefit asset	**$88,585**	$73,981
Goodwill	**24,488**	24,488
Capital assets, net	**12,340**	11,729
Right-of-use asset - office lease (Note 3)	**5,072**	—
Intangible assets, net	**35,522**	39,749
Inventory	**3,211**	3,199
Inventory - development properties	**444**	444
Finance lease receivable	**56,419**	55,941
Investment in marketable securities	**142,294**	38,606
Restricted cash	**36,646**	36,117
Other	**537**	849
	$405,558	$285,103

Finance Lease Receivable

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

NOTE 9

MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	September 30, 2019	December 31, 2018
Mortgages payable	**$4,195,671**	$4,369,811
Mark-to-market adjustments, net	**13,252**	17,455
Deferred financing costs	**(21,382)**	(24,565)
	$4,187,541	$4,362,701
Current	**$693,502**	$789,516
Non-current	**3,494,039**	3,573,185
	$4,187,541	$4,362,701
Range of interest rates	**2.25 - 8.95%**	2.25 - 8.95%
Weighted average contractual interest rate	**3.84%**	3.87%
Estimated fair value of mortgages payable	**$4,307,635**	$4,428,532

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

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of year)	$27,519	$349,653	$377,172	4.04%
2020	105,488	292,512	398,000	5.12%
2021	98,666	392,449	491,115	4.37%
2022	92,251	383,813	476,064	3.66%
2023	70,034	649,216	719,250	3.57%
Thereafter	222,112	1,511,958	1,734,070	3.63%
	$616,070	$3,579,601	$4,195,671	3.84%

The Company's first mortgages are registered against specific real estate assets. As at September 30, 2019, mortgages payable mature between 2019 and 2058 and have a weighted average term to maturity of 4.8 years (December 31, 2018 - 5.2 years). Approximately 94% of the Company's mortgages have fixed interest rates.

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

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at September 30, 2019, Temple was not in compliance with four (December 31, 2018 - seven) debt service covenants affecting four (December 31, 2018 - seven) mortgage loans amounting to $67,973 (December 31, 2018 - $104,525). None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $33,361 scheduled to retire after September 30, 2020.

NOTE 10
UNSECURED DEBENTURES

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

As at	Maturity Date	Coupon Interest Rate	September 30, 2019	December 31, 2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Unamortized financing costs			**(2,868)**	(2,303)
			$822,132	$597,697

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

On September 15, 2017, the Company issued $200,000 (net proceeds including issuance costs - $198,800) of Series C senior unsecured debentures due on September 15, 2022. Interest on the Series C senior unsecured debentures is payable semi-annually, not in advance, on March 15 and September 15 of each year. The Company has the option to redeem the Series C senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.635%.

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

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

For the three and nine months ended September 30, 2019, interest on the Unsecured Debentures of $8,941 (2018 - $7,661) and $25,804 (2018 - $19,735), respectively, are included in interest expense (Note 18).

NOTE 11
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	September 30, 2019	December 31, 2018
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**$111,629**	$110,166
Morguard Residential REIT[1]	March 31, 2023	$20.20	4.50%	$85,500	$5,000	**83,618**	79,769
Temple - Series E[2]		—	—	—	—	**—**	38,064
						$195,247	$227,999
Current						**$—**	$2,063
Non-current						**195,247**	225,936
						$195,247	$227,999

(1) As at September 30, 2019, the liability includes the fair value of the conversion option of $5,852 (December 31, 2018 - $2,469).
(2) Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

Morguard REIT

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

Morguard Residential REIT

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

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

Temple Hotels Inc.

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

For the three and nine months ended September 30, 2019, interest on convertible debentures net of accretion of $2,455 (2018 - $3,372) and $9,640 (2018 - $11,358), respectively, are included in interest expense (Note 18).

NOTE 12
MORGUARD RESIDENTIAL REIT UNITS

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

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 September 30, 2019, the Company valued the non-controlling interest in the Morguard Residential REIT Units at $554,314 (December 31, 2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external unitholders, the Company recorded a fair value loss for the three and nine months ended September 30, 2019 of $36,031 (2018 - $28,288) and $76,119 (2018 - $37,190), respectively, in the consolidated statements of income (Note 19).

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Fair value loss on Morguard Residential REIT Units	**($30,987)**	($23,827)	**($61,886)**	($23,810)
Distributions to external Unitholders (Note 4)	**(5,044)**	(4,461)	**(14,233)**	(13,380)
Fair value loss on Morguard Residential REIT Units	**($36,031)**	($28,288)	**($76,119)**	($37,190)

NOTE 13
LEASE LIABILITIES

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

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	**$9,754**	$8,970
Adoption of IFRS 16 (Note 3)	**161,614**	—
Principal payments	**(1,555)**	—
Additions	**277**	—
Dispositions (Note 6)	**(684)**	—
Foreign exchange (gain) loss	**(289)**	784
Balance, end of period	**$169,117**	$9,754
Current (Note 14)	**$2,173**	$—
Non-current	**166,944**	9,754
	$169,117	$9,754
Weighted average borrowing rate	**5.75%**	4.96%

NOTE 14
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	**$195,089**	$185,921
Tenant deposits	**27,536**	26,260
Stock appreciation rights ("SARs") liability	**26,671**	20,105
Lease liability (Note 13)	**2,173**	—
Other	**3,959**	2,630
	$255,428	$234,916

NOTE 15
BANK INDEBTEDNESS

As at September 30, 2019, the Company has operating lines of credit totalling $374,000 (December 31, 2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at September 30, 2019, the maximum amount that can be borrowed on the operating lines of credit is $356,169 (December 31, 2018 - $344,911) which includes deducting issued letters of credit in the amount of $13,790 (December 31, 2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at September 30, 2019, the Company had borrowed $135,662 (December 31, 2018 - $225,160) on its operating lines of credit.

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

NOTE 16
SHAREHOLDERS' EQUITY

(a) Share Capital Authorized

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

Issued and Fully Paid Common Shares	Number (000s)	Amount
Balance, December 31, 2017	11,842	$106,952
Common shares repurchased through the Company's NCIB	(515)	(4,655)
Common shares cancelled	(34)	—
Dividend reinvestment plan	1	139
Balance, December 31, 2018	11,294	102,436
Common shares repurchased through the Company's NCIB	**(11)**	**(100)**
Dividend reinvestment plan	**—**	**70**
Balance, September 30, 2019	**11,283**	**$102,406**

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 nine months ended September 30, 2019, 11,071 common shares were purchased for cash consideration of $2,093 at a weighted average price of $189.05 per common share.

Total dividends declared during the three and nine months ended September 30, 2019 amounted to $1,694, or $0.15 per common share (2018 - $1,709, or $0.15 per common share) and $5,080 (2018 - $5,147, or $0.45 per common share), respectively. On November 6, 2019, the Company declared a common share dividend of $0.15 per common share to be paid in the fourth quarter of 2019.

(b) Contributed Surplus

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

During the three months ended September 30, 2019, Temple purchased for cancellation 7,200 common shares (2018 - nil common shares) for cash consideration of $13 (2018 - $nil) and for the nine months ended September 30, 2019, Temple purchased for cancellation 7,200 common shares (2018 - 247,584 common shares) for cash consideration of $13 (2018 - $711), and the amount has been recorded within retained earnings.

During the three months ended September 30, 2019, the Company acquired nil Units of Morguard REIT (2018 - 110,432 Units) for cash consideration of $nil (2018 - $1,344) and for the nine months ended September 30, 2019, the Company acquired 338,048 Units of Morguard REIT (2018 - 1,230,062 Units) for cash consideration of $4,008 (2018 - $17,118). The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the three months ended September 30, 2019, amounted to $nil (2018 - $1,249) and for the nine months ended September 30, 2019, amounted to $3,544 (2018 - $13,682) and the amount has been recorded within retained earnings.

During the nine months ended September 30, 2019, the Company acquired partial interests in three properties controlled by the Company located in Mississauga, Ontario, for a purchase price of $8,014, including closing costs and the assumption of partial interest of the mortgages secured by the properties (Note 5).

(c) Stock Appreciation Rights Plan

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

As at September 30, 2019					
Date of Grant	**Exercise Price**	**Issued**	**Redeemed**	**Cancelled**	**Outstanding**
March 20, 2008	$30.74	200,000	(54,000)	(53,500)	92,500
November 2, 2010	$43.39	55,000	(2,000)	(8,000)	45,000
May 13, 2014	$137.90	25,000	(2,000)	(8,000)	15,000
May 13, 2015	$153.82	10,000	—	—	10,000
January 11, 2017	$179.95	90,000	—	—	90,000
May 18, 2018	$163.59	125,000	—	—	125,000
August 8, 2018	$168.00	20,000	—	—	20,000
November 8, 2018	$184.00	10,000	—	—	10,000
Total		**535,000**	**(58,000)**	**(69,500)**	**407,500**

During the three and nine months ended September 30, 2019, the Company recorded a fair value adjustment to increase compensation expense of $3,866 (2018 - $2,313) and $6,566 (2018 - $1,453), respectively. The expense is included in property management and corporate expenses in the consolidated statements of income (loss), and the liability is classified as accounts payable and accrued liabilities (Note 14).

The fair value for the SARs was calculated using the Black-Scholes option pricing model. In determining the fair value of the SARs, management is required to make assumptions that could have a material impact on the valuation. The following are the assumptions that were used in determining the fair value as at September 30, 2019: a dividend yield of 0.29% (2018 - 0.33%), expected volatility of approximately 21.70% (2018 - 20.77%) and the 10-year Bank of Canada Bond Yield of 1.39% (2018 - 2.42%).

(d) Accumulated Other Comprehensive Income

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

As at	September 30, 2019	December 31, 2018
Actuarial gain on defined benefit pension plans	**$53,044**	$42,057
Unrealized foreign currency translation gain	**191,442**	231,297
	$244,486	$273,354

NOTE 17
REVENUE

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Rental income	**$120,268**	$118,560	**$361,834**	$349,635
Realty taxes and insurance	**34,775**	35,236	**103,027**	95,627
Common area maintenance recoveries	**24,474**	20,423	**77,005**	72,863
Property management and ancillary income	**35,736**	35,391	**109,320**	102,385
	$215,253	$209,610	**$651,186**	$620,510

The components of revenue from hotel properties are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Room revenue	**$52,526**	$51,065	**$141,656**	$137,309
Other hotel revenue	**12,999**	13,624	**42,695**	43,229
	$65,525	$64,689	**$184,351**	$180,538

The components of management and advisory fees are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Property and asset management fees	**$9,704**	$10,573	**$29,176**	$33,039
Other fees	**4,206**	4,425	**8,815**	10,797
	$13,910	$14,998	**$37,991**	$43,836

NOTE 18
INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Interest on mortgages	**$40,703**	$40,049	**$123,206**	$118,028
Interest on Unsecured Debentures (Note 10)	**8,941**	7,661	**25,804**	19,735
Interest on convertible debentures, net of accretion (Note 11)	**2,455**	3,372	**9,640**	11,358
Interest on bank indebtedness	**1,984**	1,227	**3,990**	4,486
Interest on construction loans	**—**	—	**—**	756
Interest on loans payable and other	**659**	797	**2,162**	2,185
Interest on lease liabilities	**2,411**	98	**7,254**	290
Amortization of mark-to-market adjustments on mortgages, net	**(1,347)**	(1,684)	**(4,199)**	(5,852)
Amortization of deferred financing costs	**1,779**	1,796	**5,413**	5,200
Loss on extinguishment of mortgages payable	**—**	—	**561**	—
	57,585	53,316	**173,831**	156,186
Less: Interest capitalized to properties under development	**(108)**	(336)	**(423)**	(1,455)
	$57,477	$52,980	**$173,408**	$154,731

NOTE 19
FAIR VALUE GAIN (LOSS), NET

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Fair value gain (loss) on real estate properties, net	**($4,787)**	$30,965	**$59,482**	$168,240
Financial assets (liabilities):				
Fair value loss on conversion option of MRG convertible debentures	**(2,157)**	(596)	**(3,383)**	(470)
Fair value loss on MRG Units (Note 12)	**(36,031)**	(28,288)	**(76,119)**	(37,190)
Fair value gain (loss) on other real estate fund investments (Note 7(b))	**(215)**	468	**4,115**	1,722
Fair value gain (loss) on investment in marketable securities	**13,033**	(503)	**16,018**	280
Total fair value gain (loss), net	**($30,157)**	$2,046	**$113**	$132,582

NOTE 20
OTHER INCOME (EXPENSE)

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Foreign exchange gain (loss)	**$645**	($1,981)	**($2,144)**	$1,115
Gain on sale of hotel property (Note 6)	**—**	—	**508**	—
Gain on finance lease	**—**	—	**—**	2,692
Other income (expense)	**565**	68	**1,885**	(39)
	$1,210	($1,913)	**$249**	$3,768

NOTE 21
RELATED PARTY TRANSACTIONS

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

(a) Paros Enterprises Limited ("Paros")

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

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

(b) TWC Enterprises Limited ("TWC")

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the three and nine months ended September 30, 2019, the Company received a management fee of $326 (2018 - $215) and $979 (2018 - $623), respectively, and for the three and nine months ended September 30, 2019, paid rent and operating expenses of $166 (2018 - $160) and $511 (2018 - $499), respectively.

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at September 30, 2019 was $45,780 (December 31, 2018 - $47,809). During the three and nine months ended September 30, 2019, the Company paid net interest of $386 (2018 - earned net interest of $17) and $1,186 (2018 - earned net interest of $155), respectively.

(c) Share/Unit Purchase and Other Loans

As at September 30, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,477 (December 31, 2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable in the consolidated balance sheets. As at September 30, 2019, the fair market value of the common shares/Units held as collateral is $104,589.

NOTE 22
INCOME TAXES

(a) Tax Provision

For the three and nine months ended September 30, 2019, the Company recorded an income tax provision of $3,587 (2018 - $9,298) and $28,475 (2018 - $49,291), respectively. The effective tax rate of the current and the prior period was impacted by the tax rate differential. The effective tax rate of the prior period was also impacted by the non-recognition of the benefit of certain deductible temporary difference and the change of estimate of deferred tax liabilities.

(b) Unrecognized Deductible Temporary Differences

As at September 30, 2019, the Company's U.S. subsidiaries have total net operating losses of US$82,853 (December 31, 2018 - US$84,395) of which no deferred tax assets were recognized in respect of US$76,738 (December 31, 2018 - US$76,456) net operating losses as it is not probable that taxable income will be available against which the deductible temporary difference can be utilized. The net operating losses expire in varying years commencing 2030. As at September 30, 2019, the Company's U.S. subsidiaries have total net operating loss of US$6,114 (December 31, 2018 - US$7,939) of which deferred tax assets were recognized. As at September 30, 2019, the Company's U.S. subsidiaries have total of US$19,121 (December 31, 2018 - US$13,124) of unutilized interest expense deductions, of which deferred tax assets were recognized.

As at September 30, 2019, the Company's Canadian subsidiaries have total net operating losses of $200,169 (December 31, 2018 - $191,263) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which they can be utilized. These losses expire in various years commencing 2023.

As at September 30, 2019, the Company has other Canadian temporary differences of $41,897 (December 31, 2018 - $26,360) for which no deferred tax asset was recognized. These other temporary differences have no expiration date.

NOTE 23
NET INCOME (LOSS) PER COMMON SHARE

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Net income (loss) attributable to common shareholders	**($1,180)**	$46,750	**$102,028**	$238,962
Weighted average number of common shares outstanding (000s) - basic and diluted	**11,283**	11,424	**11,286**	11,470
Net income (loss) per common share - basic and diluted	**($0.10)**	$4.11	**$9.04**	$20.83

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Fair value gain on real estate properties, net	**($3,890)**	($39,464)	**($49,330)**	($161,016)
Fair value loss on conversion option of MRG convertible debentures (Note 19)	**2,157**	596	**3,383**	470
Fair value loss on MRG Units (Note 12)	**30,987**	23,827	**61,886**	23,810
Fair value loss (gain) on other real estate investment funds (Note 19)	**215**	(468)	**(4,115)**	(1,722)
Fair value loss (gain) on investment in marketable securities (Note 19)	**(13,033)**	503	**(16,018)**	(280)
Equity loss from investments	**28,448**	15,646	**31,660**	15,451
Amortization of hotel properties	**6,798**	6,104	**20,358**	18,722
Amortization of capital assets and other	**2,044**	1,621	**6,123**	4,823
Amortization of deferred financing costs (Note 18)	**1,779**	1,796	**5,413**	5,200
Amortization of mark-to-market adjustments on mortgages, net (Note 18)	**(1,347)**	(1,684)	**(4,199)**	(5,852)
Loss on extinguishment of mortgages payable (Note 18)	**—**	—	**561**	—
Amortization of tenant incentive	**553**	271	**1,486**	1,042
Stepped rent - adjustment for straight-line method	**468**	(958)	**345**	(2,467)
Deferred income taxes	**641**	9,038	**20,786**	39,357
Accretion of convertible debentures	**231**	444	**2,284**	1,959
Gain on sale of hotel property (Note 20)	**—**	—	**(508)**	—
Gain on finance lease (Note 20)	**—**	—	**—**	(2,692)
Provision for impairment	**19,059**	—	**19,059**	6,661
	$75,110	$17,272	**$99,174**	($56,534)

(b) Net Change in Operating Assets and Liabilities

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Amounts receivable	**$10,664**	($7,032)	**$5,111**	($4,459)
Prepaid expenses and other	**(1,292)**	(8,204)	**(24,304)**	(16,375)
Accounts payable and accrued liabilities	**(4,611)**	7,763	**2,486**	(4,812)
Net change in operating assets and liabilities	**$4,761**	($7,473)	**($16,707)**	($25,646)

(c) Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Interest paid	**$56,881**	$65,165	**$172,291**	$155,663
Interest received	**1,506**	961	**4,178**	2,795
Income taxes paid	**4,101**	3,151	**18,492**	15,734

During the three and nine months ended September 30, 2019, the Company issued non-cash dividends under the distribution reinvestment plan of $24 (2018 - $34) and $70 (2018 - $113), respectively.

(d) Reconciliation of Liabilities Arising from Financing Activities

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

	Mortgages payable	Unsecured debentures	Convertible debentures	Lease liabilities	Loans payable	Bank indebtedness	Total
Balance, beginning of period	$4,362,701	$597,697	$227,999	$9,754	$60,309	$225,160	$5,483,620
Adoption of IFRS 16	—	—	—	161,614	—	—	161,614
Repayments	(82,542)	—	—	(1,555)	(66,732)	(379,883)	(530,712)
New financing, net	168,393	223,575	—	277	55,000	290,385	737,630
Lump-sum repayments	(192,518)	—	(39,636)	—	—	—	(232,154)
Non-cash changes	(30,086)	860	6,884	(684)	—	—	(23,026)
Foreign exchange	(38,407)	—	—	(289)	(2,797)	—	(41,493)
Balance, September 30, 2019	**$4,187,541**	**$822,132**	**$195,247**	**$169,117**	**$45,780**	**$135,662**	**$5,555,479**

NOTE 25

CONTINGENCIES

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

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

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

NOTE 26

MANAGEMENT OF CAPITAL

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

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

As at	September 30, 2019	December 31, 2018
Mortgages payable, principal balance	**$4,195,671**	$4,369,811
Unsecured Debentures, principal balance	**825,000**	600,000
Convertible debentures, principal balance	**195,500**	235,136
Loans payable	**45,780**	60,309
Bank indebtedness	**135,662**	225,160
Lease liabilities	**169,117**	9,754
Shareholders' equity	**3,500,240**	3,431,366
	$9,066,970	$8,931,536

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

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

NOTE 27

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using September 30, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at September 30, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,307,635 (December 31, 2018 - $4,428,532), compared with the carrying value of $4,195,671 (December 31, 2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price (Level 1). As at September 30, 2019, the fair value of the Unsecured Debentures has been estimated at $843,336 (December 31, 2018 - $603,624) compared with the carrying value of $825,000 (December 31, 2018 - $600,000).

The fair value of the convertible debentures liability is based on their market trading prices (Level 1). As at September 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $199,533 (December 31, 2018 - $229,797), compared with the carrying value of $195,500 (December 31, 2018 - $235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using September 30, 2019, market rates for debt on similar terms (Level 3). Based on these assumptions, as at September 30, 2019, the fair value of the finance lease receivable has been estimated at $56,419 (December 31, 2018 - $55,941).

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

	September 30, 2019			December 31, 2018		
As at	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$9,819,505**	$—	$—	$9,645,596
Investments in real estate funds	**—**	**—**	**105,011**	—	—	103,984
Investment in marketable securities	**142,294**	**—**	**—**	38,606	—	—
Financial liabilities:						
Morguard Residential REIT Units	**—**	**554,314**	**—**	—	417,481	—
Conversion option on MRG convertible debentures	**—**	**5,852**	**—**	—	2,469	—

NOTE 28

SEGMENTED INFORMATION

(a) Operating Segments

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

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

For the three months ended September 30, 2019	**Multi-suite Residential**	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
Revenue from real estate/hotel properties	**$90,982**	**$61,809**	**$59,346**	**$3,116**	**$65,525**	**$280,778**
Property/hotel operating expenses	**(31,326)**	**(25,755)**	**(25,512)**	**(945)**	**(47,181)**	**(130,719)**
Net operating income	**$59,656**	**$36,054**	**$33,834**	**$2,171**	**$18,344**	**$150,059**

For the three months ended September 30, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$89,820	$58,880	$57,746	$3,164	$64,689	$274,299
Property/hotel operating expenses	(31,853)	(26,050)	(24,638)	(949)	(45,425)	(128,915)
Net operating income	$57,967	$32,830	$33,108	$2,215	$19,264	$145,384

For the nine months ended September 30, 2019	**Multi-suite Residential**	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
Revenue from real estate/hotel properties	**$273,596**	**$188,910**	**$178,788**	**$9,892**	**$184,351**	**$835,537**
Property/hotel operating expenses	**(126,666)**	**(83,754)**	**(77,370)**	**(3,117)**	**(139,852)**	**(430,759)**
Net operating income	**$146,930**	**$105,156**	**$101,418**	**$6,775**	**$44,499**	**$404,778**

For the nine months ended September 30, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$260,253	$180,275	$169,530	$10,452	$180,538	$801,048
Property/hotel operating expenses	(116,873)	(85,952)	(74,076)	(3,235)	(132,798)	(412,934)
	$143,380	$94,323	$95,454	$7,217	$47,740	$388,114
Land rent arbitration settlement						17,250
Net operating income						$405,364

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at September 30, 2019						
Real estate/hotel properties	**$4,595,314**	**$2,763,220**	**$2,308,241**	**$152,730**	**$636,544**	**$10,456,049**
Mortgages payable	**$1,911,437**	**$891,121**	**$982,234**	**$31,188**	**$371,561**	**$4,187,541**
For the nine months ended September 30, 2019						
Additions to real estate/hotel properties	**$30,210**	**$36,395**	**$68,751**	**$566**	**$14,229**	**$150,151**
Fair value gain (loss) on real estate properties	**$99,598**	**($28,527)**	**($13,660)**	**$2,071**	**$—**	**$59,482**

	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 nine months ended September 30, 2018						
Additions to real estate/hotel properties	$131,612	$65,580	$134,117	$45,155	$40,263	$416,727
Fair value gain (loss) on real estate properties	$169,952	$6,259	($9,569)	$1,598	$—	$168,240

(b) Regional Segments

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

As at	September 30, 2019	December 31, 2018
Real estate and hotel properties		
Canada	**$7,627,515**	$7,376,407
United States	**2,828,534**	2,935,267
	$10,456,049	$10,311,674

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Revenue from real estate and hotel properties				
Canada	**$218,443**	$211,790	**$645,790**	$622,541
United States	**62,335**	62,509	**189,747**	178,507
	$280,778	$274,299	**$835,537**	$801,048

NOTE 29
SUBSEQUENT EVENTS

On October 1, 2019, the Company completed the refinancing of three U.S. multi-suite residential properties located in Texas, in the amount of $109,304 (US$82,530) at a weighted average interest rate of 3.24% and for terms of 10 years. The maturing mortgages amounted to $101,555 (US$76,680) were open and prepayable at no penalty before their scheduled maturity on December 1, 2019 and had a weighted average interest rate of 3.21%.

The Company entered into a binding agreement to acquire the 51% interest not already owned in the Marquee at Block 37, a multi-suite residential property comprising 691 suites located in Chicago, Illinois, for a purchase price of US$135,150 excluding closing costs. The acquisition is expected to close during the fourth quarter of 2019. Concurrent with the acquisition, the Company secured mortgage financing in the amount of US$165,000 (at the Company's 100% interest), with a fixed term of 10 years and an interest rate of 3.27%