MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONSOLIDATED FINANCIAL STATEMENTS

2019 FOURTH QUARTER MORGUARD CORPORATION

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

TABLE OF CONTENTS

PART I

Morguard Corporation ("Morguard" or the "Company") is pleased to provide this review of operations and update on our financial performance for the year ended December 31, 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 year ended December 31, 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 audited consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 20, 2020. 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 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* ("IFRS 16"), 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 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-Consolidated 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.

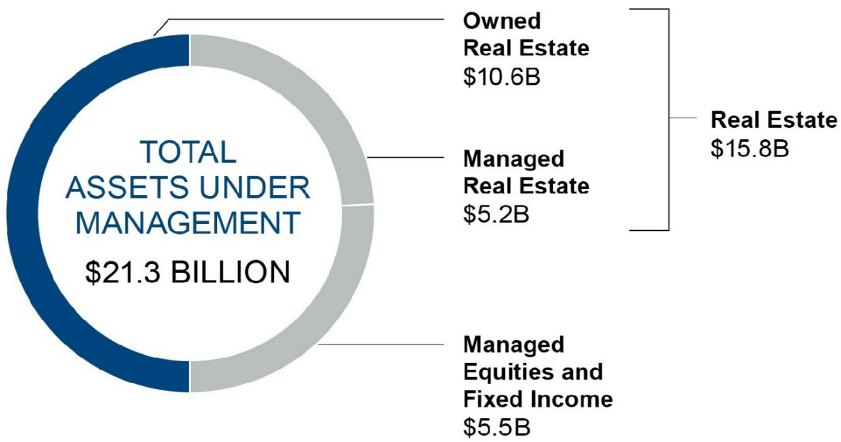
NON-CONSOLIDATED ADJUSTED SHAREHOLDERS' EQUITY

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 December 31, 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 December 31, 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 $10.7 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 December 31	2019	2018	2017
Real estate properties	**$10,201,283**	$9,645,596	$8,655,651
Hotel properties	**628,783**	666,078	669,026
Equity-accounted and other fund investments	**248,665**	281,464	280,853
Total assets	**11,703,084**	11,082,758	10,111,986
Indebtedness(1)	**$5,919,939**	$5,498,668	$4,935,454
Indebtedness to total assets (%)	**50.6**	49.6	48.8
Non-Consolidated Indebtedness to total assets (%)(2)	**43.8**	39.8	37.6
Total equity	**$4,305,717**	$4,228,798	$3,934,369
Shareholders' equity per common share	**314.55**	303.84	260.32
Exchange rates - Canadian dollar to U.S. dollar	**$0.77**	$0.73	$0.80
Exchange rates - U.S. dollar to Canadian dollar	**$1.30**	$1.36	$1.25

(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.

For the years ended December 31	2019	2018	2017
Revenue from real estate properties	**$872,223**	$841,497	$790,535
Revenue from hotel properties	**245,282**	237,938	237,116
Management and advisory fees	**52,401**	62,096	71,786
Total revenue	**1,192,973**	1,157,878	1,113,774
Net operating income	**556,181**	547,975	513,867
Fair value gain, net	**7,731**	167,235	139,898
Net income attributable to common shareholders	**186,939**	319,851	310,120
Per common share - basic and diluted	**16.57**	27.96	26.10
Funds from operations	**250,871**	232,396	225,072
Per common share - basic and diluted	**22.23**	20.32	18.94
Normalized FFO	**228,100**	217,728	222,442
Per common share - basic and diluted	**20.21**	19.04	18.72
Distributions received from Morguard REIT	**33,750**	32,790	31,178
Distributions received from Morguard Residential REIT	**16,675**	15,849	15,375
Dividends declared/paid	**(6,770)**	(6,842)	(7,127)
Average exchange rates - Canadian dollar to U.S. dollar	**$0.75**	$0.77	$0.77
Average exchange rates - U.S. dollar to Canadian dollar	**$1.33**	$1.30	$1.30

Total assets as at December 31, 2019, were $11,703,084, compared to $11,082,758 as at December 31, 2018. Total assets increased by $620,326 primarily due to the following:

- An increase in real estate properties of $555,687 mainly due to the 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 $320,061, the transfer of $172,597 from equity-accounted investments representing the 49% interest already owned in the Marquee at Block 37 in connection with the acquisition of the remaining 51% interest, capital and development expenditures of $110,600, tenant incentives and leasing commissions of $18,207, a net fair value gain of $26,649, partially offset by the disposition of real estate properties of $89,836 and a change in the foreign exchange rate amounting to $146,062;
- A decrease in hotel properties of $37,295 primarily due to an impairment provision of $22,923 and amortization of $27,902, partially offset by capital additions of $17,876;
- A decrease in equity-accounted and other fund investments of $32,799, predominantly due to a net loss on investments and the transfer of the Company's net investment in the Marquee at Block 37 to each respective balance sheet line item, partially offset by additional investments in equity investments;
- An increase in other assets and prepaid expense of $118,257 primarily due to an increase in investment in marketable securities; and
- An increase in cash of $12,767.

Total revenue during the year ended December 31, 2019, increased by $35,095 to $1,192,973, compared to $1,157,878 in 2018. The increase was primarily due to the following:

- An increase in revenue from real estate properties in the amount of $30,726;
- An increase in revenue from hotel properties in the amount of $7,344;
- An increase in interest and other income in the amount of $6,347, partially offset by:
- A decrease in management and advisory fees of $9,695.

PROPERTY PROFILE

As at December 31, 2019, the Company and its subsidiaries own a diversified portfolio of 207 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 December 31, 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	—	17,637	$4,875,246
Retail	39	8,328	—	2,567,443
Office	49	7,665	—	2,451,784
Industrial	25	1,181	—	160,555
Hotel	39	—	5,903	641,636
Properties and land held for and under development	—	—	—	127,108
Total (3)	**207**	**17,174**	**23,540**	**$10,823,772**

(1) Total GLA is shown on a proportionate basis; on a 100% basis, total GLA of the Company's commercial properties is 20.9 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 17,069 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 17,637 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 10 properties located in Florida and Louisiana. The combined retail portfolio represents 8.3 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 7.7 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	Dec. 2019	Sep. 2019	June 2019	Mar. 2019	Dec. 2018
Multi-suite residential	17,338 (1)	**96.6%**	96.9%	96.9%	96.7%	96.1%
Retail	7,795,000 (2)	**91.4%**	89.6%	88.9%	89.3%	89.8%
Office	7,665,000	**91.8%**	92.5%	92.6%	92.5%	93.3%
Industrial	1,181,000	**89.9%**	91.4%	92.9%	88.7%	90.6%

(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 (533,397 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases.

The retail occupancy levels were adjusted to exclude development space (533,397 square feet of GLA) affected primarily by either disclaimed or acquired Target and Sears leases. As at December 31, 2019, this adjustment increased retail occupancy from 86.0% to 91.4%.

PART III

REVIEW OF OPERATIONAL RESULTS

The Company's operational results for the years ended December 31, 2019, and 2018 are summarized below:

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

NET INCOME

Net income for the year ended December 31, 2019, was $188,796, compared to $344,058 in 2018. The decrease in net income of $155,262 for the year ended December 31, 2019, was primarily due to the following:

- An increase in net operating income of $8,206, primarily due to an increase in NOI from acquisition activity net of dispositions completed during and subsequent to the year ended December 31, 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, partially offset by the land rent arbitration settlement adjustment during the second quarter of 2018;
- A decrease in management and advisory fees of $9,695, primarily due to lower asset management, property management, leasing and disposition fees earned compared to 2018;
- An increase in interest and other income of $6,347, primarily due to higher income from investments and finance lease receivable;
- An increase in interest expense of $20,431 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 $1,464, primarily due to an increase in non-cash compensation expense related to the Company's Stock Appreciation Rights ("SARs") plan;
- A decrease in provision for impairment of $6,745, as a result of lower impairment recorded during 2019 compared to 2018;
- A decrease in non-cash net fair value gain of $159,504, mainly due to a lower net fair value gain recorded on the Company's real estate properties, partially offset by a decrease in the fair value loss on Morguard Residential REIT Units and an increase in the fair value gain recorded on investment in marketable securities and other real estate investment funds;
- An increase in equity loss from investments of $6,171, mainly due to an increase in fair value loss;
- A decrease in other income of $10,589, primarily due to a lower foreign exchange gain compared to 2018, as well as a gain on the recognition of a finance lease upon the completion of the Company's development project in 2018; and
- A decrease in income taxes (current and deferred) of $35,315.

NET OPERATING INCOME

Net operating income increased by $8,206 or 1.5%, during the year ended December 31, 2019, to $556,181, compared to $547,975 generated in 2018, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the years ended December 31	2019	2018
Multi-suite residential	**$212,039**	$201,160
Retail	**143,458**	132,743
Office	**136,480**	129,454
Industrial	**8,795**	9,394
Hotel	**55,554**	57,450
Adjusted NOI	**556,326**	530,201
Land rent arbitration settlement	—	17,250
IFRIC 21 adjustment - multi-suite residential	**(134)**	498
IFRIC 21 adjustment - retail	**(11)**	26
NOI	**$556,181**	$547,975

NOI for the year ended December 31, 2019, decreased by $17,250 due to the land rent arbitration settlement (described below) 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 year ended December 31, 2019, increased by $10,247, or 5.1% to $211,905, compared to $201,658 in 2018. The increase in NOI is due to the change in Adjusted NOI described below, partially offset by a decrease in the IFRIC 21 adjustment of $632.

Adjusted NOI from the multi-suite residential portfolio for the year ended December 31, 2019, increased by $10,879, or 5.4% to $212,039, compared to $201,160 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian multi-suite residential properties of $6,302 primarily resulting from:
  - An increase of $3,277 mainly from rental rate growth and improved occupancy at properties located in Canada. The average rental rate increased by 3.5% when compared to the same period in 2018. During the year ended December 31, 2019, the Company’s Canadian portfolio turned over 1,185 suites, or 14.9% of total suites and achieved average monthly rent (“AMR”) growth of 15.9% on suite turnover;
  - An increase of $1,413 due to a realty tax refund received at a property located in Toronto; and
  - An increase of $1,612 due to the adoption of IFRS 16;
- An increase in U.S. multi-suite residential properties of US$1,438 primarily resulting from:
  - An increase of US$2,121 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 3.2% when compared to the same period in 2018;
  - An increase of US$2,229 due to the acquisition of Santorini Apartments and Vizcaya Lakes during the second quarter of 2018 and the acquisition of Marquee at Block 37 during the fourth quarter of 2019; and
  - A decrease of US$2,912 due to the sale of five properties located in Louisiana, during the first and second quarters of 2019; and
- An increase of $3,139 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the year ended December 31, 2019, increased by $10,678, or 8.0%, to $143,447, compared to $132,769 in 2018. The increase in NOI is due to the change in Adjusted NOI described below, partially offset by a decrease in the IFRIC 21 adjustment of $37.

Adjusted NOI from the retail portfolio for the year ended December 31, 2019, increased by $10,715, or 8.1%, to $143,458, compared to $132,743 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian retail properties of $9,517 primarily resulting from:
  - An increase of $7,562 due to adoption of IFRS 16;
  - An increase in lease cancellation fees of $1,524 primarily due to $2,066 in lease cancellation fees received at three properties during 2019, offset by $542 received from tenants during 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
  - A decrease of $633 due to lower base rent, lower occupancy and increased non-recoverable operating expenses;
- An increase in U.S. retail properties of US$487 primarily resulting from:
  - An increase of US$704 due to additional rental revenue from new tenants and lower operating expenses predominantly at two U.S. properties;
  - A decrease of US$100 in lease cancellation fees mainly due to US$250 in lease cancellation fees received in 2019, offset by US$350 received from a tenant during 2018; and
  - A decrease of US$117 due to the sale of a property during the fourth quarter of 2019; and
- An increase of $711 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the year ended December 31, 2019, increased by $7,026, or 5.4%, to $136,480, compared to $129,454 in 2018 due primarily to the following:

- An increase of $7,766 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 December 31, 2018;
- An increase of $618 due to adoption of IFRS 16;
- A decrease of $749 in the Canadian office properties due to lower base rent, lower occupancy and higher non-recoverable operating expenses, partially offset by an increase in amortized stepped rent; and
- A decrease in lease cancellation fees of $609 primarily due to a $408 lease cancellation fee received from a tenant at a property in Saint-Laurent, Québec during 2019, offset by a $1,017 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 year ended December 31, 2019, decreased by $599, or 6.4%, to $8,795, compared to $9,394 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 $599 due to the sale of a property located in Salaberry-de-Valleyfield, Québec during the third quarter of 2019;
- An increase of $210 due to the acquisition of 1100 and 1101 Polytek Street, during first quarter of 2018; and
- An increase of $260 due to increased base rent and recoveries.

NOI from the hotel portfolio for the year ended December 31, 2019, decreased by $1,896, or 3.3%, to $55,554, compared to $57,450 in 2018 due primarily to the following:

- A decrease of $4,870 mainly due to higher vacancy and lower revenue per available room (“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 $2,183 due to the re-branding of a hotel located in Red Deer, Alberta;
- An increase in net operating income of $2,506 at the newly re-developed, dual-branded Hilton Garden Inn and Homewood Suites by Hilton located in Ottawa, Ontario which commenced operations on January 1, 2019;
- An increase of $2,479 mainly due to an increase in average daily rate (“ADR”) and RevPar at hotels located outside of the province of Alberta; and
- An increase of $172 due to adoption of IFRS 16.

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.

COMPARATIVE NET OPERATING INCOME

For the years ended December 31	2019	2018
Multi-suite residential (in local currency)	**$179,255**	$173,133
Retail (in local currency)	**132,747**	133,158
Office	**123,267**	122,451
Industrial	**5,654**	5,294
Hotel	**53,690**	58,264
Exchange amount to Canadian dollars	**34,568**	30,359
Comparative NOI	**529,181**	522,659
Land rent arbitration settlement	**—**	17,250
Acquired properties	**19,359**	8,184
Dispositions	**2,379**	7,176
Realty tax expense accounted for under IFRIC 21	**(145)**	524
U.S. retail - lease cancellation fees	**334**	426
Canadian retail - lease cancellation fees	**2,066**	542
Canadian office - lease cancellation fees	**408**	1,017
Canadian industrial - lease cancellation fees	**—**	470
Canadian hotel development	**1,864**	(642)
Adoption of IFRS 16	**—**	(9,964)
Realty tax refund/reassessment	**1,877**	—
Other	**(1,142)**	333
NOI	**$556,181**	$547,975

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 year ended December 31, 2019, increased by $6,522, or 1.2%, to $529,181 compared to $522,659 in 2018 due to the following:

- Multi-suite residential increased by $6,122 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 decreased by $411 due to lower base rent, lower occupancy at Canadian properties, partially offset by additional revenue from new tenants at two U.S. properties;
- Office increased by $816 mainly due to higher base rents and lower non-recoverable operating expenses;
- Industrial increased by $360 due to higher base rent and recoveries;
- Hotel decreased by $4,574 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 $4,209.

MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard’s management and advisory fee revenue for the year ended December 31, 2019, decreased by $9,695, or 15.6%, to $52,401, compared to $62,096 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 $1,973 during the year ended December 31, 2019 (2018 - $1,702).

INTEREST AND OTHER INCOME

Interest and other income for the year ended December 31, 2019, increased by $6,347, or 58.0%, to $17,294, compared to $10,947 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 years ended December 31	2019	2018
Mortgages payable	**$163,812**	$159,717
Unsecured Debentures	**35,651**	27,063
Convertible debentures, net of accretion	**12,089**	14,742
Bank indebtedness	**5,089**	6,275
Construction loans	**—**	756
Loans payable and other	**2,810**	3,726
Lease liabilities	**9,679**	389
Amortization of mark-to-market adjustments on mortgages, net	**(5,501)**	(7,480)
Amortization of deferred financing costs	**7,268**	6,971
Loss on extinguishment of mortgage payable	**561**	—
	231,458	212,159
Less: Interest capitalized to properties under development	**(563)**	(1,695)
	$230,895	$210,464

Interest expense for the year ended December 31, 2019, increased by $20,431, or 9.7%, to $230,895, compared to $210,464 in 2018, mainly due to higher interest on mortgages payable from the financing of acquisitions completed during and subsequent to the year ended December 31, 2018, higher interest on lease liabilities mainly 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, Series E and Series F unsecured debentures in May 2018, January 2019 and November 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 and construction loans.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the year ended December 31, 2019, increased by $1,464, or 1.6%, to $94,129, compared to $92,665 in 2018, primarily due to an increase in non-cash compensation expense related to the Company's SARs plan of $1,889.

AMORTIZATION OF HOTEL PROPERTIES, CAPITAL ASSETS AND OTHER

Amortization of hotel properties, capital assets and other for the year ended December 31, 2019, increased by $4,292 to $36,152, compared to $31,860 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 year ended December 31, 2019, a recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of $22,923 should be recorded. Carrying values of eight hotel properties, primarily located in Fort McMurray, Alberta, were impacted due to lower occupancy as a result of increased supply and lower demand and 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 year ended December 31, 2019, the Company recognized a net fair value gain on real estate properties of $27,057, compared to a net fair value gain of $238,973 in 2018.

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

For the years ended December 31	2019	2018
Multi-suite residential	**$72,823**	$273,563
Retail	**(51,861)**	(51,136)
Office	**(14,511)**	4,279
Industrial	**13,600**	6,177
Properties under development	**(61)**	(155)
Land held for development	**7,067**	6,245
	$27,057	$238,973

For the year ended December 31, 2019, the Company recognized a net fair value gain of $72,823 in the residential portfolio. The fair value gain consists of $84,618 at the Canadian properties primarily as a result of an increase in stabilized NOI and $11,795 fair value loss at the U.S. properties which was predominantly due to capital additions more than offsetting the fair value increase associated with an increase in stabilized NOI.

For the year ended December 31, 2019, the Company recognized a net fair value loss of $51,861 in the retail portfolio. The fair value loss consists of $55,692 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, partially offset by a fair value gain of $3,831 at the U.S. properties which was predominantly due to a 25 basis point decrease in capitalization rates across most of the properties located in the U.S.

For the year ended December 31, 2019, the Company recognized a net fair value loss of $14,511 in the office portfolio. The fair value loss was mainly due to lower stabilized NOI resulting from an increase in vacancy at a single tenant property located in Calgary, Alberta.

For the year ended December 31, 2019, the Company recognized a net fair value gain of $13,600 in the industrial portfolio. The fair value gain was mainly due to a reduction in the capitalization rates at certain properties.

FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS

For the year ended December 31, 2019, the Company recorded a fair value loss on the Morguard Residential REIT Units of $43,497, which includes a mark-to-market loss of $23,889 on the Units as a result of an upward trend in the trading price and the distributions made to external Unitholders of $19,608.

FAIR VALUE GAIN ON INVESTMENT IN MARKETABLE SECURITIES

Investment in marketable securities are classified as financial assets measured at fair value through profit or loss ("FVTPL"). For the year ended December 31, 2019, the Company recorded a fair value gain on investment in marketable securities of $18,088 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 years ended December 31	2019	2018
Joint ventures	**($2,708)**	$1,868
Associates	**(26,117)**	(24,522)
	($28,825)	($22,654)

Equity loss from investments for the year ended December 31, 2019, increased by $6,171 to $28,825, compared to $22,654 in 2018. The increase in equity loss is due to a higher fair value loss for the Company's investment in Marquee at Block 37 during the year ended December 31, 2019, compared to the same period in 2018.

OTHER INCOME

Other income for the year ended December 31, 2019, decreased by $10,589 to $2,835, compared to $13,424 in 2018, primarily due to a decrease in foreign exchange gain of $8,710, as well as a gain of $2,692 in 2018 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, which were partially offset by a gain of $508 on the sale of a hotel property.

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.

INCOME TAXES

For the year ended December 31, 2019, the Company recorded total income tax expense of $36,695, compared to $72,010 in 2018. The decrease of $35,315 comprises a decrease of $3,794 in current tax and a decrease of $31,521 in deferred tax.

The decrease in current tax for the year ended December 31, 2019 is primarily a result of higher interest expense in 2019, the higher capital cost allowance attributable to properties acquired during 2019, and higher taxable income in 2018 due to the land rent arbitration settlement. The decrease in deferred tax for the year ended December 31, 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 and Florida statutory tax rate, partially offset by the higher tax deduction on properties acquired during 2019.

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 year ended December 31, 2019, an actuarial gain of $9,825 was recorded in the consolidated statements of comprehensive income, compared to an actuarial loss of $6,721 for the year ended December 31, 2018.

FUNDS FROM OPERATIONS

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

	Three months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Multi-suite residential	**$56,347**	$51,914	**$212,039**	$201,160
Retail	**36,912**	37,062	**143,458**	132,743
Office	**35,062**	34,000	**136,480**	129,454
Industrial	**2,020**	2,177	**8,795**	9,394
Hotel	**11,055**	9,710	**55,554**	57,450
Adjusted NOI(1)	**141,396**	134,863	**556,326**	530,201
Other Revenue				
Land rent arbitration settlement	**—**	—	**—**	17,250
Management and advisory fees	**14,410**	18,260	**52,401**	62,096
Interest and other income	**3,874**	3,213	**17,294**	10,947
Sale of product and land, net of costs	**236**	402	**1,973**	1,702
Equity-accounted FFO(2)	**383**	(416)	**3,932**	2,832
	18,903	21,459	**75,600**	94,827
Expenses and Other				
Interest	**(57,487)**	(55,733)	**(230,895)**	(210,464)
Principal repayment of lease liabilities	**(1,562)**	—	**(2,099)**	—
Property management and corporate	**(20,934)**	(23,367)	**(94,129)**	(92,665)
Internal leasing costs	**1,902**	1,149	**4,368**	3,511
Amortization of capital assets	**(1,066)**	(1,139)	**(4,058)**	(4,672)
Current income taxes	**(3,479)**	(5,175)	**(11,168)**	(15,109)
Non-controlling interests' share of FFO	**(11,956)**	(13,020)	**(46,624)**	(54,660)
Non-controlling interest - Morguard Residential REIT	**(6,521)**	(5,416)	**(23,363)**	(22,017)
Unrealized changes in the fair value of financial instruments	**5,041**	(2,684)	**25,174**	(682)
Gain on finance lease	**—**	—	**—**	2,692
Other income (expense)	**(146)**	1,473	**1,739**	1,434
FFO	**$64,091**	$52,410	**$250,871**	$232,396
FFO per common share amounts – basic and diluted	**$5.68**	$4.63	**$22.23**	$20.32
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	**11,283**	11,326	**11,285**	11,438

(1) For the three months ended December 31, 2019 and 2018, an IFRIC 21 adjustment of $10,007 and $7,748, respectively, was subtracted from the IFRS presentation of revenue from real estate properties and revenue from hotel properties less property operating costs, utilities, realty taxes and hotel operating expenses.
(2) Equity-accounted FFO exclude fair value adjustments on real estate properties and amortization of hotel properties.

For the three months ended December 31, 2019, the Company recorded FFO of $64,091 ($5.68 per common share), compared to $52,410 ($4.63 per common share) in 2018. The increase in FFO of $11,681 is mainly due to the following:

- An increase in Adjusted NOI of $6,533, primarily due from acquisition activity net of dispositions 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 $3,850 due to lower property management, asset management and disposition fee earned, partially offset by higher leasing fee earned during the quarter compared to the same period in 2018;
- An increase in interest expense of $1,754, mainly due to higher interest on lease liabilities (noted above) and interest on Unsecured Debentures, partially offset by lower interest on convertible debentures and mortgages payable;
- An increase in principal repayment of lease liabilities of $1,562;
- A decrease in property management and corporate expenses of $2,433 primarily due to a decrease in non-cash compensation expense related to the Company's SARs plan;

- A decrease in current income taxes of $1,696;
- A decrease in the non-controlling interests' share of FFO of $1,064; and
- An increase of $7,725 in unrealized changes in the fair value of financial instruments.

The change in foreign exchange rate had a negative impact on FFO of $4 ($nil per common share).

For the year ended December 31, 2019, the Company recorded FFO of $250,871 ($22.23 per common share), compared to $232,396 ($20.32 per common share) in 2018. The increase in FFO of $18,475 is mainly due to the following:

- An increase in Adjusted NOI of $26,125, primarily due from acquisition activity net of dispositions and the impact of the adoption of IFRS 16, resulting in land rent expense of $9,964 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 $9,695, primarily due to lower asset management, property management, leasing and disposition fees earned compared to 2018;
- An increase in interest and other income of $6,347, 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 $20,431, mainly due to higher interest on lease liabilities (noted above), interest on Unsecured Debentures, interest on mortgages payable and lower amortization of mark-to-market adjustment, partially offset by lower interest on convertible debentures and bank indebtedness;
- An increase in principal repayment of lease liabilities of $2,099;
- An increase in property management and corporate expense of $1,464, primarily due to an increase in non-cash compensation expense related to the Company's SAR's plan;
- A decrease in current income taxes of $3,941;
- A decrease in the non-controlling interests' share of FFO of $8,036;
- An increase in unrealized changes in the fair value of financial instruments of $25,856; and
- A decrease of $2,692 due to a gain on the recognition of a finance lease during the second quarter of 2018.

The change in foreign exchange rate had a positive impact on FFO of $1,250 ($0.11 per common share).

Normalized FFO	Three months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
FFO (from above)	**$64,091**	$52,410	**$250,871**	$232,396
Add/(deduct):				
Land lease arbitration settlement	**—**	—	**—**	(17,250)
Unrealized loss (gain) on investment in marketable securities	**(2,070)**	3,184	**(18,088)**	2,904
Gain on finance lease	**—**	—	**—**	(2,692)
Insurance proceeds	**—**	(533)	**(2,576)**	(533)
Lease cancellation fee	**(316)**	(504)	**(2,571)**	(1,987)
	61,705	54,557	**227,636**	212,838
Tax effect	**73**	—	**464**	4,890
Normalized FFO	**$61,778**	$54,557	**$228,100**	$217,728
Per common share amounts – basic and diluted	**$5.48**	$4.82	**$20.21**	$19.04

Normalized FFO for the three months ended December 31, 2019, was $61,778, or $5.48 per common share, versus $54,557, or $4.82 per common share, for the same period in 2018, which represents an increase of $7,221, or 13.2%.

Normalized FFO for the year ended December 31, 2019, was $228,100, or $20.21 per common share, versus $217,728, or $19.04 per common share, for the same period in 2018, which represents an increase of $10,372, or 4.8%.

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

	Three months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Net income attributable to common shareholders	**$84,911**	$80,889	**$186,939**	$319,851
Add/(deduct):				
Fair value loss (gain) on real estate properties, net[1]	**28,167**	(64,191)	**3,245**	(214,324)
Non-controlling interests' share of fair value loss on real estate properties, net	**(12,234)**	(13,795)	**(31,901)**	(9,710)
Fair value loss (gain) on Morguard Residential REIT Units	**(37,997)**	27,731	**23,889**	51,541
Distribution to Morguard Residential REIT's external Unitholders	**5,375**	4,548	**19,608**	17,928
Non-controlling interest - Morguard Residential REIT	**(6,521)**	(5,416)	**(23,363)**	(22,017)
Fair value loss (gain) on conversion option of MRG convertible debentures	**(2,380)**	1,117	**1,003**	1,587
Amortization of intangible asset	**1,061**	556	**4,192**	1,846
Amortization of hotel properties[2]	**9,350**	6,865	**30,357**	26,179
Non-controlling interests' share of amortization of hotel properties	**(1,386)**	(2,174)	**(5,908)**	(8,243)
Foreign exchange gain	**(2,732)**	(8,183)	**(588)**	(9,298)
Deferred income taxes	**4,487**	17,437	**25,273**	56,794
Non-controlling interests' share of deferred income tax provision	**—**	(479)	**(677)**	(244)
Current tax on disposition of properties	**254**	107	**254**	107
Principal repayment of lease liabilities	**(1,562)**	—	**(2,099)**	—
Internal leasing costs	**1,902**	1,149	**4,368**	3,511
Realty taxes accounted for under IFRIC 21[3]	**(9,409)**	(7,253)	**145**	(524)
Provision for impairment	**3,864**	23,007	**22,923**	29,668
Non-controlling interests' share of provision for impairment	**(1,059)**	(9,505)	**(6,281)**	(12,256)
Gain on sale of hotel property	**—**	—	**(508)**	—
FFO	**$64,091**	$52,410	**$250,871**	$232,396
FFO per common share – basic and diluted	**$5.68**	$4.63	**$22.23**	$20.32
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	**11,283**	11,326	**11,285**	11,438

(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 December 31	2019	2018
Real estate properties		
Multi-suite residential	**$4,838,483**	$4,543,672
Retail	**2,702,613**	2,589,422
Office	**2,372,524**	2,215,973
Industrial	**160,555**	162,235
	10,074,175	9,511,302
Properties under development	**43,650**	56,717
Land held for development	**83,458**	77,577
Real estate properties	**$10,201,283**	$9,645,596

Real estate properties increased by $555,687 at December 31, 2019, to $10,201,283, compared to $9,645,596 at December 31, 2018. The increase is primarily the result of the following:

- Acquisition of real estate property of $320,061 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	157,000	**$53,130**
Marquee at Block 37	December 9, 2019	Residential	Chicago, IL	352	**180,237**
Mississauga City Centre	December 19, 2019	Office	Mississauga, ON	398,500	**86,694**
					$320,061

- An increase of $172,597 from a transfer from equity-accounted investments representing the 49% interest already owned in the Marquee at Block 37 in connection with the acquisition of the remaining 51% interest;
- Capitalization of property enhancements, including capital expenditures and tenant improvements totalling $78,762;
- Development expenditures of $50,045;
- Dispositions of real estate properties totalling $89,836 as a result of the following asset sales:

Property	Date of Disposition	Asset Type	Suites / 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**
Westgate Shopping Center	December 30, 2019	Retail	167,500	**10,023**	**10,023**
				$89,836	**$53,322**

(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 $26,649; and
- A decrease of $146,062 due to the change in the U.S. dollar foreign exchange rate.

Acquisitions Completed During the Year Ended December 31, 2019

99 Metcalfe Street is a multi-tenanted office building located in Ottawa, Ontario. It is a 12-storey building which encompasses 157,000 square feet with three levels of underground parking and was constructed in 1985 and renovated in 1997. The property has benefited from significant investment by its lead tenant, the Government of Canada, with ongoing space modernization projects to adhere to their new workplace standards with $10,000 spent on upgrades in the past 48 months. The property is located at the corner of Metcalfe Street and Slater Street in Ottawa's central business district and the office tenancy is supported by service retail located on the ground floor. The property is strategically located in the heart of Ottawa's central business district and sits on the existing Bus-Rapid-Transit corridor and is steps away from the Parliament LRT station.

Marquee at Block 37 is a 38-storey luxury residential complex located in Chicago, Illinois and features 690 rental apartments, 130 parking spaces and extensive best-in-class amenities. Located in the heart of the city's downtown, the property offers apartments ranging in size from 650 square feet to 2,100 square feet and features upscale finishes, spaces filled with natural light and unique lake and city views from the heart of the Loop community. The Marquee at Block 37 sits atop Block 37,a third-party owned, 275,000 square-foot, five-storey mall. The property is connected to the Loop's pedway system, which offers subterranean shelter from the city's varied weather conditions. The acquisition of the remaining 51% interest in the property represents a significant expansion of the Company's footprint in Chicago with ownership and management of 2,054 apartment suites which include Alta K Station and Coast at Lakeshore East, also located in the Loop area.

Mississauga City Centre is a four-building suburban Class B office portfolio located at 33, 57, 77 and 201 City Centre Drive, in the heart of Mississauga's city centre. The buildings were developed between 1969 and 1979 and range from six to eleven storeys. The total GLA of the portfolio is 797,000 square feet and the buildings have a combination of deck, underground and surface parking. The portfolio is located in central Mississauga adjacent to the Square One Shopping Centre and Mississauga City Hall which gives the portfolio a unique advantage to tenants due to the numerous amenities in the immediate vicinity, high-quality exposure and the excellent transportation access. The future Hurontario LRT will have a stop directly on the site of the property further enhancing the site's access to transit. The acquisition of the remaining 50% interest in the portfolio, which is situated on a site of 22.5 acres, provides the Company with opportunity to support a further two million square feet of mixed-use development.

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

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

As at	December 31, 2019					December 31, 2018				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	**98.0%**	**92.0%**	**6.8%**	**3.5%**	**4.5%**	98.0%	90.0%	7.8%	3.5%	4.5%
Retail	**100.0%**	**85.0%**	**8.5%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**6.8%**	**5.0%**	**5.2%**	100.0%	95.0%	7.5%	5.0%	5.8%

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

As at	December 31, 2019			December 31, 2018		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.3%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**8.5%**	**5.3%**	**5.9%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.5%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**6.5%**	**6.0%**	**6.1%**	7.3%	6.0%	6.5%
Terminal cap rate	**6.0%**	**5.0%**	**5.4%**	6.8%	5.0%	5.8%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in 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 December 31, 2019, and 2018, is set out in the table below:

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

HOTEL PROPERTIES

Hotel properties consist of the following:

As at December 31	2019	2018
Cost	**$800,838**	$788,412
Accumulated impairment provision	**(77,181)**	(54,258)
Accumulated amortization	**(94,874)**	(68,076)
Hotel properties	**$628,783**	$666,078

On March 12, 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 year ended December 31, 2019, impairment indicators were identified including decreases in occupancy at certain hotel properties. A recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of $22,923 should be recorded. The table below provides details of first year net operating income and the discount rates used for valuing the hotel properties.

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

EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

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

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

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$23,705**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**2,994**	7,031
Greypoint Capital L.P.(1)	Toronto, ON	Joint Venture	Other	**22.6%**	36.4%	**12,028**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**9,595**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,796**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**63,803**	52,646
Marquee at Block 37(2)	Chicago, IL	Associate	Residential	**—**	49.0%	**—**	53,476
MIL Industrial Fund II LP(3)	Various	Associate	Industrial	**18.8%**	18.8%	**22,032**	18,555
						$138,953	$177,480

(1) Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.
(2) The Company acquired the 51% interest not already owned in the Marquee at Block 37 on December 9, 2019.
(3) The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

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

As at December 31	2019	2018
Balance, beginning of year	**$177,480**	$187,365
Additions	**64,914**	7,786
Transfer[1]	**(63,504)**	—
Share of net loss	**(28,825)**	(22,654)
Distributions received	**(6,778)**	(4,472)
Foreign exchange gain (loss)	**(4,334)**	9,455
Balance, end of year	**$138,953**	$177,480

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

MORTGAGES PAYABLE

Mortgages payable totalled $4,365,279 at December 31, 2019, compared to $4,362,701 at December 31, 2018, an increase of $2,578. The increase was predominantly due to net proceeds from new financing of $472,706, transfer of mortgage from equity-accounted investments of $109,189, partially offset by, repayment of mortgages discharged and matured of $401,044, scheduled principal repayments of $110,771 and a decrease of $66,678 from the change in the foreign exchange rate.

MORTGAGE CONTINUITY SCHEDULE

As at December 31	2019	2018
Opening mortgage balance	**$4,362,701**	$4,056,028
New mortgage financing	**475,981**	477,769
New mortgage financing costs	**(3,275)**	(2,797)
Mortgages discharged and matured	**(401,044)**	(196,704)
Scheduled principal repayments	**(110,771)**	(109,578)
Transfer of mortgage from equity-accounted investment	**109,189**	—
Mortgages assumed on acquisition	**—**	32,264
Change in foreign exchange rate	**(66,678)**	108,745
Mortgages mark-to-market adjustment, net	**(5,501)**	(7,480)
Deferred financing costs (including extinguishment)	**4,677**	4,454
Closing mortgage balance	**$4,365,279**	$4,362,701

MORTGAGE REPAYMENT SCHEDULE

As at December 31, 2019	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2020	$109,167	$473,949	$583,116	4.96%
2021	104,916	391,205	496,121	4.38%
2022	100,616	406,905	507,521	3.55%
2023	78,008	642,451	720,459	3.57%
2024	53,376	323,966	377,342	3.75%
Thereafter	214,437	1,476,951	1,691,388	3.53%
	$660,520	$3,715,427	4,375,947	3.80%
Mark-to-market adjustment, net			11,948	
Deferred financing costs			(22,616)	
			$4,365,279	

The Company's first mortgages are registered against specific real estate assets and hotel properties. As at December 31, 2019, mortgages payable bear interest at rates ranging between 2.25% and 8.95% per annum with a weighted average interest rate of 3.80% (2018 - 3.87%), mature between 2020 and 2058 with a weighted average term to maturity of 5.1 years (2018 - 5.2 years) and approximately 94% of the Company's mortgages have fixed interest rates.

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at December 31, 2019, Temple was not in compliance with five (2018 - seven) debt service covenants affecting five (2018 - seven) mortgage loans amounting to $80,877 (2018 - $104,525). None of the lenders have demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $46,501 scheduled to retire after December 31, 2020.

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

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.

			2020			2021
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Multi-suite residential	1	$8,825	4.25%	5	$98,389	4.03%
Retail	2	44,356	4.00%	6	198,172	4.37%
Office	8	168,190	4.63%	2	35,066	4.05%
Hotels(1)	16	205,027	5.42%	3	49,748	5.38%
	27	$426,398	4.94%	17	$391,205	4.38%

(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 year ended December 31, 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
December 4, 2019	Retail	Toronto, ON	3.54%	2.96%	3.0	40,000
December 12, 2019	Retail	Toronto, ON	3.54%	3.17%	5.0	48,000
October 1, 2019	Residential	Irving, TX	3.21%	3.23%	10.0	33,110
October 1, 2019	Residential	Irving, TX	3.26%	3.21%	10.0	55,214
October 1, 2019	Residential	Garland, TX	3.24%	3.20%	10.0	20,978
December 9, 2019	Residential	Chicago, IL	3.27%	—	10.1	109,187
Weighted Averages and Total			**3.49%**	**3.60%**	**6.6**	**$518,780**

The following table details the mortgages repaid at maturity and extinguished prior to maturity during the year ended December 31, 2019.

Date	Asset Type	Location	Mortgage Amount
March 27, 2019	Residential	Gretna, LA	$11,331
October 1, 2019	Residential	Irving, TX	31,229
October 1, 2019	Residential	Irving, TX	53,082
October 1, 2019	Residential	Garland, TX	17,244
July 12, 2019	Retail	Ottawa, ON	129,639
December 4, 2019	Retail	Toronto, ON	29,679
December 12, 2019	Retail	Toronto, ON	31,167
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
September 30, 2019	Hotel	Fort McMurray, AB	15,830
September 30, 2019	Hotel	Fort McMurray, AB	2,875
September 30, 2019	Hotel	Fort McMurray, AB	1,931
October 1, 2019	Hotel	Fort McMurray, AB	14,000
Various(1)	Hotel	Fort McMurray, AB	2,000
Various(1)	Hotel	Lloydminster, AB	5,000
Various(1)	Hotel	Red Deer, AB	3,000
Weighted Averages and Total			**$414,059**

(1) Represents a mortgage paydown made each quarter during 2019.

UNSECURED DEBENTURES

The Company's Unsecured Debentures consist of the following:

As at December 31	Maturity Date	Coupon Interest Rate	2019	2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Series F senior unsecured debentures	November 27, 2024	4.204%	**225,000**	—
Unamortized financing costs			**(3,556)**	(2,303)
			$1,046,444	$597,697

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%.

On November 27, 2019, the Company issued $225,000 (net proceeds including issuance costs - $224,000) of Series F senior unsecured debentures due on November 27, 2024. Interest on the Series F senior unsecured debentures is payable semi-annually, not in advance, on May 27 and November 27 of each year, commencing on May 27, 2020. The Company has the option to redeem the Series F senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.675%.

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

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: 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	December 31, 2019	December 31, 2018
Interest coverage ratio	1.65	**2.71**	2.95
Indebtedness to aggregate assets ratio(1)	Less than or equal to 65%	**43.8%**	39.8%
Adjusted shareholders' equity(2)	Not less than $300,000	**$3,707,655**	$3,569,936

(1) As defined in the Indenture, adjusted to exclude goodwill and deferred income tax assets and to add back accumulated amortization of hotel properties.
(2) 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 December 31, 2019, are $459,277 (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 42.6% excluding the adoption of IFRS 16.

The adoption of IFRS 16 had a negative impact to the interest coverage ratio, which would have been 3.01 times excluding the adoption of IFRS 16. The interest coverage ratio for the year ended December 31, 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 December 31, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
ASSETS						
Real estate properties	$10,201,283	($2,892,103)	($2,872,658)	$—	($254,227)	$4,182,295
Hotel properties	628,783	—	—	(368,820)	(23,552)	236,411
Equity-accounted and other fund investments	248,665	(23,705)	(106,521)	(11,262)	1,544,902	1,652,079
Investment in Class C LP Units	—	—	—	—	86,998	86,998
Other assets	624,353	(21,533)	(54,248)	(26,391)	127,532	649,713
Total assets	$11,703,084	($2,937,341)	($3,033,427)	($406,473)	$1,481,653	$6,807,496
LIABILITIES						
Mortgage payable and Class C LP Units	$4,365,279	($1,068,348)	($1,230,305)	($283,425)	($75,927)	$1,707,274
Construction financing, loans and bank indebtedness	134,779	(97,658)	—	(82,500)	115,000	69,621
Class B LP Units	—	—	(318,455)	—	318,455	—
Unsecured Debentures	1,046,444	—	—	—	—	1,046,444
Convertible debentures	193,503	(170,753)	(86,398)	—	63,648	—
Lease Liabilities	166,144	(11,116)	(9,286)	(1,587)	546	144,701
Morguard Residential REIT Units	516,462	—	—	—	(516,462)	—
Deferred income tax liabilities	733,786	—	(114,763)	—	(619,023)	—
Accounts payable and accrued liabilities	240,970	(51,998)	(48,427)	(17,275)	8,531	131,801
Total liabilities	7,397,367	(1,399,873)	(1,807,634)	(384,787)	(705,232)	3,099,841
Equity / Adjusted shareholders' equity	4,305,717	(1,537,468)	(1,225,793)	(21,686)	2,186,885	3,707,655
Total liabilities and equity	$11,703,084	($2,937,341)	($3,033,427)	($406,473)	$1,481,653	$6,807,496

COMPUTATION FOR INTEREST COVERAGE RATIO

Year ended December 31, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
Revenue from real estate properties	$872,223	($273,074)	($245,596)	$—	($7,627)	$345,926
Revenue from hotel properties	245,282	—	—	(155,756)	—	89,526
Property operating expenses	(371,596)	123,113	112,734	—	(9,696)	(145,445)
Hotel operating expenses	(189,728)	—	—	122,608	—	(67,120)
Net operating income	556,181	(149,961)	(132,862)	(33,148)	(17,323)	222,887
Management and advisory fees and distributions	52,401	—	—	—	47,792	100,193
Interest and other income	17,294	(45)	(1,505)	484	5,806	22,034
Sales of product and land, net of costs	1,973	—	—	—	—	1,973
Property management and corporate(1)	(94,129)	4,271	14,343	3,618	(14,563)	(86,460)
Other income (expense)(2)	1,739	—	—	(1,787)	—	(48)
Distributions from Morguard REIT and Morguard Residential REIT	—	—	—	—	50,425	50,425
EBITDA	$535,459	($145,735)	($120,024)	($30,833)	$72,137	$311,004
Interest expense	$230,895	($58,006)	($65,812)	($24,884)	$32,448	$114,641
Interest capitalized to development projects	563	(563)	—	—	—	—
Interest expense for interest coverage ratio	$231,458	($58,569)	($65,812)	($24,884)	$32,448	$114,641

(1) Morguard consolidated property management and corporate expense for the year ended December 31, 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 $4,598.

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

(1) As at December 31, 2019, the liability includes the fair value of the conversion option of $3,472 (2018 - $2,469).

(2) Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

MORGUARD REIT

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

MORGUARD RESIDENTIAL REIT

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

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

TEMPLE HOTELS INC.

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

For the year ended December 31, 2019, interest on convertible debentures net of accretion of $12,089 (2018 - $14,742) is included in interest expense.

MORGUARD RESIDENTIAL REIT UNITS

As at December 31, 2019, the Company owned a 44.8% (2018 - 46.9%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units (2018 - 6,675,166 Units) and 17,223,090 Class B LP Units (2018 - 17,223,090 Class B LP Units). 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 December 31, 2019, the Company valued the non-controlling interest in Morguard Residential REIT Units at $516,462 (2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value loss for the year ended December 31, 2019 of $43,497 (2018 - $69,469) in the consolidated statements of income.

BANK INDEBTEDNESS

As at December 31, 2019, the Company has operating lines of credit totalling $374,000 (2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at December 31, 2019, the maximum amount that can be borrowed on the operating lines of credit is $356,169 (2018 - $344,911) which includes deducting issued letters of credit in the amount of $13,790 (2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at December 31, 2019, the Company had borrowed $101,100 (2018 - $225,160) on its operating lines of credit.

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

LEASE LIABILITIES

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

As at December 31	2019	2018
Balance, beginning of year	**$9,754**	$8,970
Adoption of IFRS 16	**161,614**	—
Interest on lease liabilities	**9,679**	—
Payments	**(11,778)**	—
Additions	**725**	—
Dispositions	**(684)**	—
Extinguishment[1]	**(2,664)**	—
Foreign exchange loss (gain)	**(502)**	784
Balance, end of year	**$166,144**	$9,754

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

Future minimum lease payments under lease liabilities are as follows:

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

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the Company's financial liabilities for upcoming periods as at December 31, 2019, are as follows:

As at December 31, 2019	2020	2021	2022	2023	2024	Thereafter	Total
Mortgages payable	$583,116	$496,121	$507,521	$720,459	$377,342	$1,691,388	**$4,375,947**
Mortgage interest	146,700	126,972	110,101	79,451	60,315	163,524	**687,063**
Convertible debentures	—	115,000	—	80,500	—	—	**195,500**
Interest on convertible debentures	8,808	8,798	3,623	893	—	—	**22,122**
Unsecured Debentures	200,000	200,000	200,000	—	450,000	—	**1,050,000**
Interest on Unsecured Debentures	43,927	31,798	26,206	20,068	9,555	—	**131,554**
Loans payable	33,679	—	—	—	—	—	**33,679**
Bank indebtedness	101,100	—	—	—	—	—	**101,100**
Accounts payable and accrued liabilities	240,970	—	—	—	—	—	**240,970**
Lease liability (including interest)	11,127	11,193	10,998	10,588	10,556	364,195	**418,657**
	$1,369,427	**$989,882**	**$858,449**	**$911,959**	**$907,768**	**$2,219,107**	**$7,256,592**

EQUITY

Total equity increased by $76,919 to $4,305,717 at December 31, 2019, compared to $4,228,798 at December 31, 2018.

The increase in equity was primarily the result of:

- Net income for the year ended December 31, 2019, of $188,796;
- Contribution from non-controlling interest of $15,930;
- An actuarial gain on defined benefit pension plans of $9,825; partially offset by
- Unrealized foreign currency translation loss of $77,743;
- Change in ownership of Morguard REIT of $6,616;
- 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 $28,029; and
- Dividends paid of $6,770.

During the year ended December 31, 2019, 11,071 common shares were repurchased through the Company's normal course issuer bid ("NCIB") for cash consideration of $2,093.

As at December 31, 2019, 11,282,561 common shares were outstanding. As at February 20, 2020, 11,259,061 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 year ended December 31, 2019, Morguard received approximately $57,203 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.

YEAR ENDED DECEMBER 31, 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the year ended December 31, 2019, was $282,414, compared to $291,404 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 year ended December 31, 2019, totalled $561,756, compared to cash used in investing activities of $559,714 in 2018. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of $391,302;
- Additions to hotel properties of $17,876;
- Additions to capital and intangible assets of $12,659;
- Net proceeds from the sale of real estate properties of $64,653;
- Net proceeds from the sale of hotel properties of $1,849;
- Investment in properties under development of $50,045;
- Investment in equity-accounted and other fund investments, net of $68,708, and
- Investment in marketable securities of $87,668.

Cash Provided by Financing Activities

Cash provided by financing activities during the year ended December 31, 2019, totalled $294,513, compared to cash provided by financing of $248,278 in 2018. The cash provided by financing activities reflects:

- Proceeds from new mortgages, net financing cost of $472,706;
- Repayment of mortgages on maturity of $308,293;
- Repayment of mortgages due to extinguishments of $62,967;
- Mortgage principal repayments of $110,771;
- Principal payment of lease liabilities of $2,099;
- Net repayment of bank indebtedness of $124,060;
- Proceeds from issuance of Morguard Residential REIT Units, net of cost of $74,528;
- Proceeds from issuance of unsecured debentures, net of costs of $447,575;
- Redemption of convertible debentures of $39,636;
- Net repayment of loans payable of $22,784;
- Dividends paid of $6,680;
- Distributions to non-controlling interest of $27,100;
- Contribution from non-controlling interest of $15,930;
- Common shares repurchased for cancellation of $2,093;
- Investment in Morguard REIT of $6,616;
- Increase in subsidiary ownership interest of $8,014; and
- Decrease in restricted cash of $4,936.

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 December 31, 2019 was $nil (2018 - $12,500). During the year ended December 31, 2019, the Company incurred net interest expense of $71 (2018 - $28).

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

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at December 31, 2019 was $33,679 (2018 - $47,809). During the year ended December 31, 2019, the Company paid net interest of $1,489 (2018 - $238).

SHARE/UNIT PURCHASE AND OTHER LOANS

As at December 31, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,504 (2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable on the consolidated balance sheets. As at December 31, 2019, the fair market value of the common shares/Units held as collateral is $101,756.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements for the years ended December 31, 2019 and 2018, have been prepared in accordance with IFRS. A summary of the significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2019.

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

In determining estimates of fair market value for the Company's income producing properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Significant estimates used in determining fair value of the Company's income producing properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates, inflation rates and operating costs). Should any of these underlying assumptions change, actual results could differ from the estimated amounts.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's critical accounting policies are those that management believes are the most important in portraying the Company's financial condition and results and that require the most subjective judgment and estimates on the part of management.

De Facto Control

IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") prescribes that the Company may have control over an investment even if the Company holds less than a majority of the investee's voting rights (*de facto* control). In accordance with IFRS 10, the following are the criteria that the Company uses to determine if *de facto* control exists: (i) the Company holds a significant voting interest (but less than half of the voting rights); (ii) there is wide diversity of public holdings of the remaining voting rights; (iii) the Company has the majority of the voting quorum according to historical participants in the general meetings of the Unitholders; and (iv) the Company has the ability to establish policies and guide operations by appointing the investee's senior management. Judgment is applied by management in determining the existence of *de facto* control.

Real Estate Properties

Real estate properties include multi-suite residential, retail, office, industrial and hotel properties held to earn rental income and for capital appreciation and properties or land that are being constructed or developed for future use as income producing properties. Real estate properties, with the exception of hotel properties, are recorded at fair value, determined based on available market evidence, at the balance sheet date. The Company determined the fair value of each real estate 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 balance sheet dates, less future cash outflow pertaining to the respective leases. The residential properties are appraised using the direct capitalization income method. The retail, office and industrial properties are appraised using a number of approaches that typically include a discounted cash flow analysis 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. To assist with the evaluation of fair value, the Company has its Canadian properties appraised by Morguard's appraisal division. Morguard's appraisal division is staffed with accredited members of the AIC who, collectively, in 2019 valued approximately $15 billion of real estate properties in Canada and the U.S. for institutional and corporate clients.

In applying the accounting policies to the Company's real estate properties, judgment is required in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and tenant improvements, and, for properties under development, in identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Judgment is also applied in determining the extent and frequency of independent appraisals.

Business Combinations

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

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

Joint Arrangements

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

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

Income Taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

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

Revenue Recognition

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

Fair Value of Financial Instruments

Management reports on a quarterly basis the fair value of financial instruments. The fair value of financial instruments approximates amounts at which these instruments could be exchanged between knowledgeable and willing parties. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. Management estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using December 31, 2019, market rates for debts of similar terms.

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 on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and 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 December 31, 2019, market rates for debts of similar terms. Based on these assumptions, the fair value as at December 31, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,406,348 (2018 - $4,428,532), compared with the carrying value of $4,375,947 (2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price. As at December 31, 2019, the fair value of the Unsecured Debentures has been estimated at $1,070,033 (2018 - $603,624) compared with the carrying value of $1,050,000 (2018 - $600,000).

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

The fair value of the finance lease receivable is determined by discounting the cash flows of the financial receivable using December 31, 2019, market rates for debt on similar terms. Based on these assumptions, as at December 31, 2019, the fair value of the finance lease receivable has been estimated at $56,574 (2018 - $55,941).

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

IFRS 16, *Leases*

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

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

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

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

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

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

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")
IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, *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

An investment in securities of the Company involves significant risks. Investors should consider carefully the risks described below, the other information described elsewhere in this MD&A (as updated by any subsequent interim MD&A) and those risks set out in the Company's Annual Information Form ("AIF") for the year ended December 31, 2019, dated February 20, 2020, before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely affected. In that case, the trading price of securities of the Company could decline, and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

There are certain risks inherent in an investment in the securities of the Company and in the activities of the Company, including those set out in the Company's publicly filed disclosure available on SEDAR.

The following are business risks the Company expects to face in the normal course of its operations and management's strategy to reduce the potential impact.

OPERATING RISK

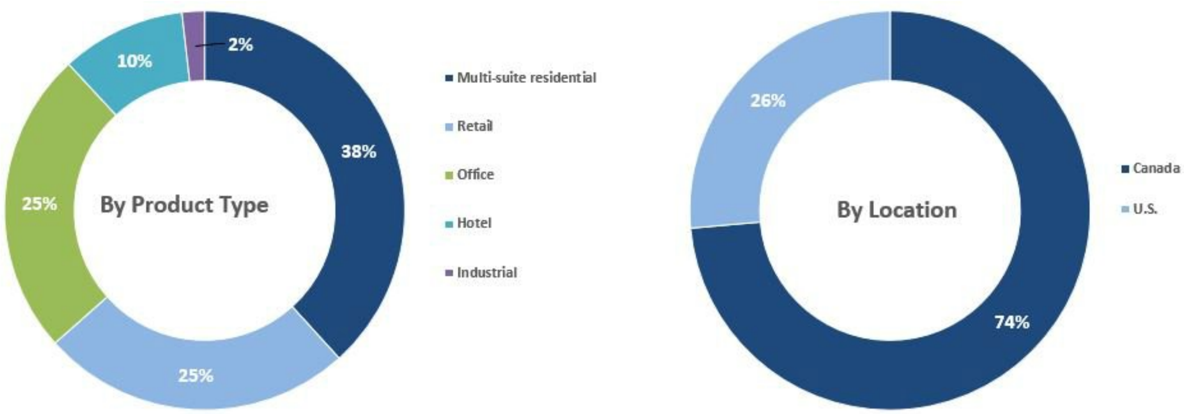
Real estate has a high fixed cost associated with ownership, and income lost due to vacancies cannot easily be minimized through cost reduction. Tenant retention is critical to maintaining occupancy levels. Through well-located and professionally managed properties, management seeks to increase tenant loyalty and become the landlord of choice. Morguard reduces operating risk through diversification. The Company diversifies its portfolio by tenants, lease maturities, product and location.

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

The Company is also subject to utility and property tax risk relating to increased costs that the Company may experience as a result of higher resource prices, as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of revaluations of municipal properties and their adherent tax rates. In some instances, enhancements to properties may result in a significant increase in property assessments following a revaluation. Additionally, utility expenses, consisting mainly of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Unlike commercial leases, which generally are "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases, and the landlord is not able to pass on costs to its tenants.

In connection with the prudent management of its properties, the Company makes significant property capital investments (for example, to upgrade and maintain building structure, balconies, parking garages, roofing, and electrical and mechanical systems). The Company commissioned building condition reports in connection with the acquisition of each of the properties and has committed to a multi-year property capital investment plan based on the findings of such reports. The Company continually monitors its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its property capital investment programs. The Company requires sufficient capital to carry out its planned property capital investment and repair and refurbishment programs to upgrade its properties or it could be exposed to operating business risks arising from structural failure, electrical or mechanical breakdowns, fire or water damage, etc., which may result in significant loss of earnings to the Company.

The portfolio diversification is shown by percentage of NOI for the year ended December 31, 2019:



REPORTING INVESTMENT PROPERTY AT FAIR VALUE

The Company holds investment property to earn rental income or for capital appreciation or both. All investment properties are measured using the fair value model under IFRS, whereby changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Management values each investment property based on the most probable price that a property could be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, such as the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Each investment property has been valued on a highest-and-best-use basis.

There is a risk that general declines in real estate markets or sales of assets by the Company under financial or other hardship would have an impact on the fair values reported or on the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect the Company’s specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the Company’s operating revenues and cash flows, as well as the fair values of the investment properties.

FINANCING RISK

The Company is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities secured by the Company’s properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. To minimize this risk, Morguard has structured its debt maturities over a number of years and has negotiated fixed interest rates on approximately 90% of its total indebtedness.

CREDIT RISK

The Company's primary business is the ownership and operation of multi-suite residential, retail, office and hotel properties. The income stream generated by tenants paying rent can be affected by general and local economic conditions and by a change in the credit and financial stability of tenants. Examples of local conditions that could adversely affect income include oversupply of space or reduced demand for rental space, the attractiveness of the Company's properties compared to other space, and fluctuation in real estate taxes, insurance and other operating costs. The Company may be adversely affected if tenants become unable to meet their financial obligations under their leases.

Retail shopping centres traditionally rely on anchor tenants (department stores, junior department stores or grocery stores) as a source of significant revenue and in terms of generating traffic for the centre. Accordingly, the risk is present that an anchor tenant will move out or experience a failure, which would have a negative impact on the subject property.

The Company's ten largest tenants account for 21.6% of the Company's total rental revenue from real estate properties as follows:

Tenants as at December 31, 2019	Rental Revenue	GLA Square Feet (000s)	% of Total GLA(1)
Federal and provincial government	9.3%	1,931	11.6%
Obsidian Energy Ltd.	3.7%	619	3.7%
Bombardier Inc.	2.1%	529	3.2%
TD Canada Trust	1.7%	453	2.7%
Loblaw Companies Ltd.	1.0%	268	1.6%
Canadian Broadcasting Corporation	0.9%	126	0.8%
Canadian Tire Corporation Ltd.	0.8%	383	2.3%
Brookfield BPR Canada Corporation	0.8%	132	0.8%
Wood Group	0.7%	145	0.9%
AJW Technique Inc.	0.6%	151	0.9%
	21.6%	4,737	28.5%

(1) The total GLA excludes multi-suite residential and hotel properties.

COMMERCIAL LEASE ROLLOVER RISK

Lease rollover risk results from the possibility that the Company may experience difficulty in renewing leases as they expire or in re-leasing space vacated by a tenant upon expiry. Management attempts to stagger the lease expiry profile so that the Company is not exposed to disproportionate amounts of space expiring in any one year, as set out in the table below. Management further mitigates this risk by maintaining a diversified portfolio mix by both asset type and location.

Lease Expiries

Summary of Lease Expiries as at December 31, 2019		2020		2021		2022	
	Total SF	SF	%	SF	%	SF	%
Retail (1)	7,795	1,280	16%	1,319	17%	934	12%
Office	7,665	792	10%	383	5%	723	9%
Industrial	1,181	13	1%	134	11%	41	3%
Total	16,641	2,085	13%	1,836	11%	1,698	10%

(1) Retail SF has been adjusted to exclude development space (533,397 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases.

FOREIGN EXCHANGE RISK

A 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 risk with respect to future cash flows derived from the properties located in the United States. The Company's exposure to exchange rate risk could increase if the proportion of income from properties located in the United States increases as a result of future property acquisitions. The Company mitigates its foreign currency exposure by offsetting certain revenues earned in United States dollars from its U.S. properties against expenses and liabilities undertaken by the Company in United States dollars.

At December 31, 2019, the Canadian dollar value was US$0.77 compared to US$0.73 a year earlier. The average exchange rate for the year ended December 31, 2019, was US$0.75 compared to US$0.77 during 2018. The strengthening of the Canadian dollar during 2019 resulted in an unrealized foreign currency translation loss of approximately $77,743 recognized in OCI.

MORGUARD REIT AND MORGUARD RESIDENTIAL REIT UNITHOLDER TAXATION

At December 31, 2019, the Company owned 35,520,482 Units of Morguard REIT and 7,944,166 Units of Morguard Residential REIT and 17,223,090 Class B LP Units of Morguard NAR Canada Limited Partnership. The Class B LP Units are exchangeable, on a one-for-one basis, at the option of the Company, into Units of Morguard Residential REIT.

Legislation relating to the federal income taxation of a specified investment flow-through ("SIFT") trust or partnership was enacted on June 22, 2007 (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership or trust such as an income trust. Under the SIFT Rules, certain distributions attributable to a SIFT trust will not be deductible in computing the SIFT trust's taxable income, and the SIFT trust will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT trust as returns of capital should generally not be subject to the tax. Under the SIFT Rules, the new taxation regime will not apply to a trust that meets prescribed conditions relating to the nature of its income and investments ("the REIT Exception").

The Company believes that Morguard REIT and Morguard Residential REIT (the "REITs") intend to comply with the requirements under Part 1 of the *Income Tax Act* (Canada) (the "Tax Act") at all relevant times such that they maintain their status as "unit trusts" and "mutual fund trusts" for purposes of the Tax Act. Under current law, a trust may lose its status under the Tax Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of non-residents, except in limited circumstances. Accordingly, non-residents may not be the beneficial owners of more than 49% of the Units (determined on a basic or a fully diluted basis). The Trustees of Morguard REIT and Morguard Residential REIT also have various powers that can be used for the purpose of monitoring and controlling the extent of non-resident ownership of the Units. The restrictions on the issuance of Units by the REITs to non-residents may negatively affect the REITs' ability to raise financing for future acquisitions or operations. In addition, the non-resident ownership restrictions could have a negative impact on the liquidity of the Units and the market price at which Units can be sold.

There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency with respect to mutual fund trusts will not be changed in a manner that adversely affects Unitholders.

Although, as of the date hereof, management believes that Morguard REIT and Morguard Residential REIT has and are able to meet the requirements of the REIT Exception throughout 2019 and beyond, there can be no assurance that the REITs will be able to qualify for the REIT Exception such that the REITs and the Unitholders will not be subject to the SIFT Rules in 2020 or in future years.

VOLATILE MARKET PRICE FOR THE COMPANY'S SECURITIES

The market price for the Company's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following: (i) actual or anticipated fluctuations in the Company's financial performance and future prospects; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the Company; (iv) an addition to or departure of the Company's executive officers; (v) release or expiration of lock-up or other transfer restrictions on outstanding shares; (vi) sales or perceived sales of additional shares; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets; (ix) liquidity of the Company's securities; (x) prevailing interest rates; (xi) the market price of other Company securities; (xii) a decrease in the amount of dividends declared and paid by the Company; and (xiii) general economic conditions.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the Company's securities may decline even if the Company's financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in the Company's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, the Company's operations could be adversely affected and the trading price of the securities may be adversely affected.

DILUTION

The number of common shares and the principal amount of Unsecured Debentures under the Trust Indenture that the Company is authorized to issue are unlimited. The Company may, in its sole discretion, issue additional common shares and/or Unsecured Debentures from time to time subject to the rules of any applicable stock exchange on which the common shares are then listed and applicable securities law. The issuance of any additional common shares and/or Unsecured Debentures may have a dilutive effect on the interests of holders of common shares and/or Unsecured Debentures.

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 year ended December 31, 2019. The Company's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design and operation are effective as of and for the year ended December 31, 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

SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table shows information for revenue from income producing properties, revenue from hotel properties, NOI, net income attributable to common shareholders, FFO, dividends declared, total assets, non-current financial liabilities, and per common share amounts for the periods noted.

For the years ended December 31 (In thousands of dollars, except per common share amounts)	2019	2018	2017
Revenue from income producing properties	**$872,223**	$841,497	$790,535
Revenue from hotel properties	**245,282**	237,938	237,116
NOI	**556,181**	547,975	513,867
NOI per common share			
- basic and diluted	**49.28**	47.91	43.24
Net income attributable to common shareholders	**186,939**	319,851	310,120
Net income attributable to common shareholders per common share			
- basic and diluted	**16.57**	27.96	26.10
FFO	**250,871**	232,396	225,072
FFO per common share			
- basic and diluted	**22.23**	20.32	18.94
Dividends declared	**6,770**	6,842	7,127
Dividends per common share	**0.60**	0.60	0.60
Total assets	**11,703,084**	11,082,758	10,111,986
Non-current portion of financial liabilities:			
Mortgages payable	**3,781,668**	3,573,185	3,440,069
Unsecured Debentures	**846,666**	597,697	398,152
Convertible debentures	**193,503**	225,936	147,701
Morguard Residential REIT Units	**516,462**	417,481	365,438
Lease liability	**164,441**	9,754	8,970

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
December 31, 2019	**$301,532**	**$151,403**	**$141,396**	**$64,091**	**$82,786**	**$84,911**	**$7.53**
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

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-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 Year Ended December 31, 2019

During the first quarter of 2019, the Company disposed of four multi-suite residential properties in the U.S. consisting of 795 suites.

During the second quarter of 2019, the Company disposed of one multi-suite residential property in the U.S. consisting of 48 suites.

During the third quarter of 2019, the Company disposed of one industrial property in Canada consisting of 242,521 square feet of commercial leasable area.

During the third quarter of 2019, the Company acquired an office property in Canada consisting of approximately 157,350 square feet of commercial area.

During the fourth quarter of 2019, the Company acquired the remaining 51% interest in a multi-suite residential property in the U.S. consisting of 690 suites.

During the fourth quarter of 2019, the Company acquired the remaining 50% co-ownership interest in an office property in Canada consisting of 398,500 square feet of commercial leasable area.

During the fourth quarter of 2019, the Company disposed of one retail property in the U.S. consisting of 167,500 square feet of commercial leasable area and an adjacent parcel of land classified as held for development.

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.

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 higher interest expense from the adoption of IFRS 16, mortgage interest from the financing of acquisitions completed during and subsequent to December 31, 2018, and on the Company’s Unsecured Debentures resulting from the issuance of the Series D, Series E and Series F unsecured debentures in May 2018, January 2019 and November 2019, respectively, net of the Series A unsecured debentures repayment in December 2018. In addition, the change in net income (loss) resulted from the following 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, 2019 and 2018, 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;
- 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.

Fourth Quarter Results 2019

For the three months ended December 31 (In thousands of dollars)	2019	2018
Revenue from real estate properties	**$221,037**	$220,987
Revenue from hotel properties	**60,931**	57,400
Property operating expenses		
Property operating costs	**(48,797)**	(50,111)
Utilities	**(14,381)**	(14,418)
Realty taxes	**(17,511)**	(23,557)
Hotel operating expenses	**(49,876)**	(47,690)
Net operating income	**151,403**	142,611
OTHER REVENUE		
Management and advisory fees	**14,410**	18,260
Interest and other income	**3,874**	3,213
Sales of product and land	**1,280**	1,442
	19,564	22,915
EXPENSES		
Interest	**57,487**	55,733
Property management and corporate	**20,934**	23,367
Cost of sales of product and land	**1,044**	1,040
Amortization of hotel properties	**7,544**	6,620
Amortization of capital assets and other	**2,127**	1,695
Provision for impairment	**3,864**	23,007
	93,000	111,462
OTHER INCOME (EXPENSE)		
Fair value gain, net	**7,618**	34,653
Equity income (loss) from investments	**2,835**	(7,203)
Other income	**2,586**	9,656
	13,039	37,106
Income before income taxes	**91,006**	91,170
Provision for income taxes		
Current	**3,733**	5,282
Deferred	**4,487**	17,437
	8,220	22,719
Net income for the period	**$82,786**	$68,451
Net income (loss) attributable to:		
Common shareholders	**$84,911**	$80,889
Non-controlling interest	**(2,125)**	(12,438)
	$82,786	$68,451

The Company’s net income for the three months ended December 31, 2019, increased by $14,335 to $82,786, compared to $68,451 in the fourth quarter of 2018. The increase in net income was primarily due to the following:

- An increase in net operating income of $8,792 primarily due from acquisition activity net of dispositions completed during and subsequent to December 31, 2018 and the impact of the adoption of IFRS 16;
- A decrease in management and advisory fee income of $3,850 primarily due to lower disposition, asset management, property management and development fees earned compared to the same period in 2018, partially offset by higher leasing fees earned during 2019;

- An increase in interest expense of $1,754 primarily due to higher interest on lease liabilities and interest on unsecured debentures, partially offset by lower interest on mortgages payable, loans payable and convertible debentures;
- A decrease in property management and corporate expenses of $2,433 primarily due to a decrease in non-cash compensation expense related to the Company's SARs plan;
- A decrease in provision for impairment of $19,143, as a result of lower impairment recorded compared to the same period in 2018;
- A decrease in net fair value gain of $27,035 comprised of:
  - A fair value decrease of $103,158 on income producing properties primarily due to a fair value loss recorded during the fourth quarter of 2019 when compared to a fair value gain reported during the same period in 2018;
  - An increase in the fair value gain on Morguard Residential REIT Units of $64,901 due to the change in market value of the Units; and
  - An increase in fair value gain of $7,725 on other real estate investment funds and marketable securities due to increase in value.
- An increase in equity income from investments of $10,038 mainly due to higher fair value gains recorded during the fourth quarter compared to fair value losses recorded during the same period in 2019;
- A decrease in other income of $7,070 primarily due to an increase in foreign exchange gain; and
- A decrease in current and deferred income tax of $14,499, primarily a result of lower fair value increase related to Canadian and U.S. properties compared to the same period in 2018.

SUBSEQUENT EVENTS

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

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

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

PART IX

OUTLOOK

Generally healthy performance fundamentals were reported in the Canadian and U.S. commercial property sectors over the past year, a period during which the mature phase of the real estate cycle continued to unfold. In 2019, the record-long U.S. economic expansion cycle was extended while Canadian growth remained moderate. The North American economic backdrop supported positive outcomes in most regions and assets classes. For the most part, rental market fundamentals pushed average rents and occupancy levels to the cycle-high bolstering performance and the bottom lines of most owners/investors. Performance for owners/investors in resource-driven regions were below average, given pricing and demand slumps. Owners of retail assets across the continent also witnessed weaker performance outcomes, given the impacts of ongoing broader industry changes driven by the continued emergence of online shopping and demographic trends. Generally, however, demand for commercial rental space outpaced supply in Canada's multi-suite residential rental, office and industrial property classes. In the U.S. conditions were more balanced with demand keeping pace with new supply. Strong occupancy patterns and rising rents across much of the North American property sector continued to draw investment capital to the asset class. Investors were able to source attractive yields and capitalize on forecast rent growth with the acquisition of commercial real estate. This ability drove commercial property investment sales volume to a record high. The supply of core properties generally fell short of the volume of capital allocated to the asset class. Consequently, bids on high-quality assets were aggressive and often involved multiple parties. Industrial and multi-suite residential rental properties were highly coveted, which pushed values moderately higher. Office properties also garnered strong interest. Retail properties were more closely scrutinized, given the ongoing challenges of downward pressure on average rents and declining occupancy and property values in several segments of the market. On balance, however, the North American commercial property sector performance of the past year continued to reward investors, during the mature phase of the cycle.

The North American real estate sector is expected to continue to generate solid results for owners/investors in the coming year. Continued expansion in the U.S. and Canadian economies will support healthy occupancy patterns and rent growth in most segments of the market. Once again, the industrial, office and multi-suite residential sectors will outperform, as the retail property class continues to adjust to the broader industry's ongoing transformation. Rent growth will be strongest in the industrial and multi-suite residential sectors, which will result in strong investment demand. Comparatively, property performance will moderate but investors will continue to be rewarded for placing capital into the asset class. Technology-driven businesses will drive demand for office and industrial space while housing shortages and demographic trends will support the multi-suite rental sector. Despite increased sector risk related to trade disputes and geopolitical events, investors will confidently place capital in the North American real estate sector in order to secure attractive and stable risk-adjusted returns.

Over the coming year, the environment for acquisitions should continue to be extremely competitive. The Company remains disciplined in exploring new investment opportunities. Management will continue to seek acquisition opportunities, focusing on properties that are accretive in the long term. In addition to acquisitions, the Company also expects growth to come organically from within the existing portfolio and from intensification opportunities.

The Company's strength stems from conservative financial leverage, significant cash retention and our highly diversified cash flow streams.

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

MANAGEMENT’S REPORT TO SHAREHOLDERS

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

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

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

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

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

(Signed) “K. Rai Sahi”

K. Rai Sahi
Chief Executive Officer

(Signed) “Paul Miatello”

Paul Miatello
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Morguard Corporation

Opinion

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

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

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

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

BALANCE SHEETS

In thousands of Canadian dollars

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

Commitments and contingencies 27

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

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

K. Rai Sahi,
Director

Bruce K. Robertson,
Director

STATEMENTS OF INCOME

In thousands of Canadian dollars, except per common share amounts

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

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

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

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Retained Earnings	Accumulated Other Comprehensive Income	Share Capital	Total Shareholders' Equity	Non-controlling Interest	Total
Shareholders' equity, January 1, 2018		$2,785,739	$189,982	$106,952	$3,082,673	$851,696	$3,934,369
Changes during the year:							
Net income		319,851	—	—	319,851	24,207	344,058
Other comprehensive income		—	100,687	—	100,687	7,637	108,324
Dividends		(6,842)	—	—	(6,842)	—	(6,842)
Distributions		—	—	—	—	(29,778)	(29,778)
Issuance of common shares		—	—	139	139	—	139
Repurchase of common shares		(87,720)	—	(4,655)	(92,375)	—	(92,375)
Adjustment on adoption of IFRS 9		17,315	(17,315)	—	—	—	—
Change in ownership of Morguard REIT		26,921	—	—	26,921	(53,850)	(26,929)
Change in ownership of Temple Hotels Inc.		312	—	—	312	(2,480)	(2,168)
Shareholders' equity, December 31, 2018		$3,055,576	$273,354	$102,436	$3,431,366	$797,432	$4,228,798
Changes during the year:							
Net income		**186,939**	**—**	**—**	**186,939**	**1,857**	**188,796**
Other comprehensive loss		**—**	**(65,450)**	**—**	**(65,450)**	**(4,297)**	**(69,747)**
Dividends	17(a)	**(6,770)**	**—**	**—**	**(6,770)**	**—**	**(6,770)**
Distributions		**—**	**—**	**—**	**—**	**(28,029)**	**(28,029)**
Issuance of common shares	17(a)	**—**	**—**	**90**	**90**	**—**	**90**
Repurchase of common shares	17(a)	**(1,993)**	**—**	**(100)**	**(2,093)**	**—**	**(2,093)**
Contribution from non-controlling interest	17(b)	**—**	**—**	**—**	**—**	**15,930**	**15,930**
Change in ownership of Temple Hotels Inc.	17(b)	**(2,498)**	**—**	**—**	**(2,498)**	**2,449**	**(49)**
Change in ownership of Morguard REIT	17(b)	**6,418**	**—**	**—**	**6,418**	**(13,034)**	**(6,616)**
Increase in subsidiary ownership interest		**—**	**—**	**—**	**—**	**(15,497)**	**(15,497)**
Tax impact of increase in subsidiary ownership interest	23(b)	**904**	**—**	**—**	**904**	**—**	**904**
Shareholders' equity, December 31, 2019		**$3,238,576**	**$207,904**	**$102,426**	**$3,548,906**	**$756,811**	**$4,305,717**

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS
In thousands of Canadian dollars

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

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 2019 and 2018
In thousands of Canadian dollars, except per common share and Unit amounts and unless otherwise noted

NOTE 1
NATURE AND DESCRIPTION OF COMPANY

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

NOTE 2
STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

Basis of Presentation

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

Basis of Consolidation

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

Non-controlling Interests and MRG Convertible Debentures

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

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

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

Investments in Associates

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

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

Interests in Joint Arrangements

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

Real Estate Properties

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

Income Producing Properties

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

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

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

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

Hotel Properties

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

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

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

Properties Under Development

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

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

Cash and Cash Equivalents

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

Goodwill

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

Capital Assets

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

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

Intangible Assets

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

Inventory - Land Held for Residential Development

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

Impairment of Non-financial Assets

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

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

Provisions

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

Financial Instruments

Recognition and Measurement of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition

Revenue from Real Estate Properties

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

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

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

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

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

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

Revenue from Hotel Properties

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

Management and Advisory Fees

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

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

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

Income Taxes

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

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

Employee Future Benefits

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

Stock-Based Compensation

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

Income Per Common Share

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

Foreign Exchange

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

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

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

Reportable Operating Segments

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

Critical Judgments in Applying Accounting Policies

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

De Facto Control

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

Real Estate Properties

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

Business Combinations

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

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

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

Critical Accounting Estimates and Assumptions

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

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

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

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

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

NOTE 3
ADOPTION OF ACCOUNTING STANDARDS
Current Accounting Policy Changes
IFRS 16, *Leases*
In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17, *Leases* ("IAS 17"). Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 4

SUBSIDIARIES WITH NON-CONTROLLING INTEREST

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

As at December 31, 2019, the Company owned a 44.8% (2018 - 46.9%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units (2018 - 6,675,166 Units) and 17,223,090 Class B LP Units (2018 - 17,223,090 Class B LP Units). The Company continues to consolidate its investment in Morguard Residential REIT on the basis of *de facto* control in accordance with IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). The basis for concluding that the Company continues to control Morguard Residential REIT is as follows: (i) the Company holds a significant interest in Morguard Residential REIT's voting rights as at December 31, 2019; (ii) there is a wide dispersion of the public holdings of Morguard Residential REIT's remaining Units; (iii) the Company has the ability to nominate a minimum number of Morguard Residential REIT's trustees based on the Company's ownership interest; (iv) all of Morguard Residential REIT's senior management are employees of the Company; and (v) Morguard Residential REIT is significantly dependent on the Company as a result of existing service agreements that cover property management, asset management, debt financing and acquisitions.

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

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

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

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

Temple Hotels Inc. ("Temple")

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

The following summarizes the results of Morguard REIT, Morguard Residential REIT and Temple before any intercompany eliminations and the corresponding non-controlling interest in the equity of Morguard REIT, Morguard Residential REIT and Temple. The Units issued by Morguard Residential REIT that are not held by the Company are presented as equity on Morguard Residential REIT's balance sheet, but are classified as a liability on the Company's consolidated balance sheets (Note 13).

As at December 31			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Non-current assets	**$2,914,709**	**$2,979,179**	**$443,789**	$2,938,915	$2,973,694	$484,730
Current assets	**21,127**	**54,248**	**20,681**	38,153	37,775	26,345
Total assets	**$2,935,836**	**$3,033,427**	**$464,470**	$2,977,068	$3,011,469	$511,075
Non-current liabilities	**$1,093,403**	**$1,729,489**	**$128,844**	$1,096,488	$1,699,959	$178,507
Current liabilities	**318,289**	**78,145**	**255,036**	319,607	183,649	296,536
Total liabilities	**$1,411,692**	**$1,807,634**	**$383,880**	$1,416,095	$1,883,608	$475,043
Equity	**$1,524,144**	**$1,225,793**	**$80,590**	$1,560,973	$1,127,861	$36,032
Non-controlling interest	**$634,841**	**$676,895**	**$22,056**	$662,904	$598,793	$14,691

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

For the years ended December 31			2019			2018
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	**$273,074**	**$245,596**	**$155,756**	$276,473	$241,368	$165,809
Expenses	**(178,268)**	**(198,366)**	**(192,558)**	(177,045)	(210,428)	(202,722)
Fair value gain (loss) on real estate properties, net	**(73,850)**	**55,977**	**—**	(18,602)	180,283	—
Fair value loss on Class B LP Units	**—**	**(23,079)**	**—**	—	(36,513)	—
Net income (loss) for the year	**$20,956**	**$80,128**	**($36,802)**	$80,826	$174,710	($36,913)
Non-controlling interest	**$9,009**	**$44,247**	**($11,014)**	$35,650	$92,755	($15,258)

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

NOTE 5
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

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

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

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2018	**$9,511,302**	**$56,717**	**$77,577**	**$9,645,596**
Additions:				
Acquisitions	**320,061**	**—**	**—**	**320,061**
Capital expenditures	**60,555**	**—**	**—**	**60,555**
Development expenditures	**—**	**49,891**	**154**	**50,045**
Tenant improvements, incentives and leasing commissions	**18,207**	**—**	**—**	**18,207**
Transfers	**61,948**	**(61,948)**	**—**	**—**
Transfer from equity-accounted investments (Note 8(a))	**172,597**	**—**	**—**	**172,597**
Dispositions	**(89,342)**	**—**	**(494)**	**(89,836)**
Adoption of IFRS 16 (Note 3)	**153,610**	**—**	**—**	**153,610**
Fair value gain (loss), net	**19,643**	**(61)**	**7,067**	**26,649**
Foreign currency translation	**(144,267)**	**(949)**	**(846)**	**(146,062)**
Other	**(10,139)**	**—**	**—**	**(10,139)**
Balance as at December 31, 2019	**$10,074,175**	**$43,650**	**$83,458**	**$10,201,283**

Transactions completed during the year ended December 31, 2019

Acquisitions

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

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

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

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

Dispositions

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

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

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

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

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

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

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

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

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

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

Transactions Completed During the Year Ended December 31, 2018

Acquisitions

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

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

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

Dispositions

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

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

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

Capitalization Rates

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

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

As at December 31, 2019, using the direct capitalization approach, the multi-suite residential, retail, office and industrial properties were valued using capitalization rates in the range of 3.5% to 8.5% (2018 - 3.5% to 12.0%), resulting in an overall weighted average capitalization rate of 5.5% (2018 - 5.3%).

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

As at	December 31, 2019					December 31, 2018				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	**98.0%**	**92.0%**	**6.8%**	**3.5%**	**4.5%**	98.0%	90.0%	7.8%	3.5%	4.5%
Retail	**100.0%**	**85.0%**	**8.5%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**6.8%**	**5.0%**	**5.2%**	100.0%	95.0%	7.5%	5.0%	5.8%

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

As at	December 31, 2019			December 31, 2018		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.3%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**8.5%**	**5.3%**	**5.9%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.5%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**6.5%**	**6.0%**	**6.1%**	7.3%	6.0%	6.5%
Terminal cap rate	**6.0%**	**5.0%**	**5.4%**	6.8%	5.0%	5.8%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rates were to increase or decrease by 25 basis points (assuming no change in stabilized net operating income), the value of the income producing properties as at December 31, 2019, would decrease by $432,779 and increase by $476,591, respectively.

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

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

NOTE 6
HOTEL PROPERTIES

Hotel properties consist of the following:

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

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

Transactions in hotel properties for the year ended December 31, 2019, are summarized as follows:

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

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

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

On March 12, 2019, Temple sold a 30% undivided interest in the Acclaim Hotel for gross proceeds of $6,450 resulting in net cash proceeds of $1,849 after deducting the assumption of the first mortgage loan of $4,601. On disposition, the recoverable amount exceeded the carrying value of the property, resulting in a gain of $508 (Note 21). The 30% interest in the property had a net book value of $6,626 ($5,942 when excluding the right-of-use asset, which has an offsetting lease liability).

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

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

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

NOTE 7
CO-OWNERSHIP INTERESTS

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

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

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

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

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

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

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

NOTE 8
EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

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

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

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$23,705**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**2,994**	7,031
Greypoint Capital L.P.[(1)]	Toronto, ON	Joint Venture	Other	**22.6%**	36.4%	**12,028**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**9,595**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,796**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**63,803**	52,646
Marquee at Block 37[(2)]	Chicago, IL	Associate	Residential	**—**	49.0%	**—**	53,476
MIL Industrial Fund II LP[(3)]	Various	Associate	Industrial	**18.8%**	18.8%	**22,032**	18,555
						$138,953	$177,480

(1) Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.
(2) The Company acquired the 51% interest not already owned in the Marquee at Block 37 on December 9, 2019 (Note 5).
(3) The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

Equity-accounted investments

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

As at December 31	2019	2018
Balance, beginning of year	**$177,480**	$187,365
Additions	**64,914**	7,786
Transfer[(1)]	**(63,504)**	—
Share of net loss	**(28,825)**	(22,654)
Distributions received	**(6,778)**	(4,472)
Foreign exchange gain (loss)	**(4,334)**	9,455
Balance, end of year	**$138,953**	$177,480

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

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

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

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

(b) Income Recognized from Other Fund Investments:

Other Real Estate Fund Investments

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

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

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

NOTE 9
OTHER ASSETS

Other assets consist of the following:

As at December 31	2019	2018
Accrued pension benefit asset (Note 26)	**$83,554**	$73,981
Goodwill	**24,488**	24,488
Capital assets, net	**20,435**	11,729
Right-of-use asset - office lease (Note 3)	**2,603**	—
Intangible assets, net	**36,501**	39,749
Inventory	**3,016**	3,199
Inventory - development properties	**451**	444
Finance lease receivable	**56,574**	55,941
Investment in marketable securities	**142,911**	38,606
Restricted cash	**30,449**	36,117
Other	**519**	849
	$401,501	$285,103

Finance Lease Receivable

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

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

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

NOTE 10
MORTGAGES PAYABLE

Mortgages payable consist of the following:

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

The aggregate principal repayments and balances maturing of the mortgages payable as at December 31, 2019, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Interest Rate
2020	$109,167	$473,949	$583,116	4.96%
2021	104,916	391,205	496,121	4.38%
2022	100,616	406,905	507,521	3.55%
2023	78,008	642,451	720,459	3.57%
2024	53,376	323,966	377,342	3.75%
Thereafter	214,437	1,476,951	1,691,388	3.53%
	$660,520	$3,715,427	$4,375,947	3.80%

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

As at December 31, 2019, approximately 92% of the Company's real estate and hotel properties, and related rental revenue have been pledged as collateral for the mortgages payable.

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at December 31, 2019, Temple was not in compliance with five (2018 - seven) debt service covenants affecting five (2018 - seven) mortgage loans amounting to $80,877 (2018 - $104,525). None of the lenders have demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $46,501 scheduled to retire after December 31, 2020.

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

NOTE 11
UNSECURED DEBENTURES

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

As at December 31	Maturity Date	Coupon Interest Rate	2019	2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Series F senior unsecured debentures	November 27, 2024	4.204%	**225,000**	—
Unamortized financing costs			**(3,556)**	(2,303)
			$1,046,444	$597,697
Current			**$199,778**	$—
Non-current			**846,666**	597,697
			$1,046,444	$597,697

On November 18, 2016, the Company issued $200,000 (net proceeds including issuance costs - $199,198) of Series B senior unsecured debentures due on November 18, 2020. Interest on the Series B senior unsecured debentures is payable semi-annually, not in advance, on May 18 and November 18 of each year. The Company has the option to redeem the Series B senior unsecured debentures at a redemption price equal to the greater of the

Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.785%.

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

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

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

On November 27, 2019, the Company issued $225,000 (net proceeds including issuance costs - $224,000) of Series F senior unsecured debentures due on November 27, 2024. Interest on the Series F senior unsecured debentures is payable semi-annually, not in advance, on May 27 and November 27 of each year, commencing on May 27, 2020. The Company has the option to redeem the Series F senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.675%.

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

NOTE 12
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

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

(1) As at December 31, 2019, the liability includes the fair value of the conversion option of $3,472 (2018 - $2,469).
(2) Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

Morguard REIT

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

Morguard Residential REIT

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

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

Temple Hotels Inc.

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

For the year ended December 31, 2019, interest on convertible debentures net of accretion of $12,089 (2018 - $14,742) is included in interest expense (Note 19).

NOTE 13

MORGUARD RESIDENTIAL REIT UNITS

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

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

As at December 31, 2019, the Company valued the non-controlling interest in the Morguard Residential REIT Units at $516,462 (2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value loss for the year ended December 31, 2019 of $43,497 (2018 - $69,469) in the consolidated statements of income (Note 20).

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

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

NOTE 14

LEASE LIABILITIES

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

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

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

Future minimum lease payments under lease liabilities are as follows:

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

NOTE 15

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

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

NOTE 16

BANK INDEBTEDNESS

As at December 31, 2019, the Company has operating lines of credit totalling $374,000 (2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at December 31, 2019, the maximum amount that can be borrowed on the operating lines of credit is $356,169 (2018 - $344,911) which includes deducting issued letters of credit in the amount of $13,790 (2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at December 31, 2019, the Company had borrowed $101,100 (2018 - $225,160) on its operating lines of credit.

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

NOTE 17
SHAREHOLDERS' EQUITY
(a) Share Capital Authorized

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

Issued and Fully Paid Common Shares	Number (000s)	Amount
Balance, December 31, 2017	11,842	$106,952
Common shares repurchased through the Company's NCIB	(515)	(4,655)
Common shares cancelled	(34)	—
Dividend reinvestment plan	1	139
Balance, December 31, 2018	11,294	102,436
Common shares repurchased through the Company's NCIB	**(11)**	**(100)**
Dividend reinvestment plan	**—**	**90**
Balance, December 31, 2019	**11,283**	**$102,426**

The Company had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 569,854 common shares. The program expired on September 21, 2019. On September 17, 2019, the Company obtained the approval of the TSX under its NCIB to purchase up to 564,117 common shares, being approximately 5% of the issued and outstanding common shares, and the program expires on September 21, 2020. The daily repurchase restriction for the common shares is 1,000. During the year ended December 31, 2019, 11,071 common shares were purchased for cash consideration of $2,093 at a weighted average price of $189.05 per common share.

Total dividends declared during the year ended December 31, 2019 amounted to $6,770, or $0.60 per common share (2018 - $6,842, or $0.60 per common share). On February 20, 2020, the Company declared a common share dividend of $0.15 per common share to be paid in the first quarter of 2020.

(b) Contributed Surplus

During the year ended December 31, 2019, Temple issued 50,044,658 common shares through two rights offering in aggregate amounting to net proceeds of $80,902, of which, the Company acquired 39,807,004 common shares of Temple for cash consideration of $64,972. The non-controlling interest share relating to Temple's rights offerings, net of transaction costs, amounted to $15,930. The difference between the cash consideration and the carrying value of the non-controlling interest share amounted to $2,498 and the amount has been recorded within retained earnings.

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

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

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

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

During the year ended December 31, 2019, the Company acquired partial interests in three properties controlled by the Company located in Mississauga, Ontario, for a purchase price of $8,014, including closing costs and the assumption of partial interest of the mortgages secured by the properties (Note 5).

(c) Stock Appreciation Rights Plan

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

As at December 31, 2019					
Date of Grant	Exercise Price	Issued	Redeemed	Cancelled	Outstanding
March 20, 2008	$30.74	200,000	(64,000)	(53,500)	82,500
November 2, 2010	$43.39	55,000	(2,000)	(8,000)	45,000
May 13, 2014	$137.90	25,000	(2,000)	(8,000)	15,000
May 13, 2015	$153.82	10,000	—	—	10,000
January 11, 2017	$179.95	90,000	—	—	90,000
May 18, 2018	$163.59	125,000	—	—	125,000
August 8, 2018	$168.00	20,000	—	—	20,000
November 8, 2018	$184.00	10,000	—	—	10,000
Total		**535,000**	**(68,000)**	**(69,500)**	**397,500**

During the year ended December 31, 2019, the Company recorded a fair value adjustment to increase compensation expense of $4,598 (2018 - $2,709). The expense is included in property management and corporate expenses in the consolidated statements of income, and the liability is classified as accounts payable and accrued liabilities (Note 15).

The fair value for the SARs was calculated using the Black-Scholes option pricing model. In determining the fair value of the SARs, management is required to make assumptions that could have a material impact on the valuation. The following are the assumptions that were used in determining the fair value as at December 31, 2019: a dividend yield of 0.30% (2018 - 0.34%), expected volatility of approximately 21.91% (2018 - 21.29%) and the 10-year Bank of Canada Bond Yield of 1.61% (2018 - 1.98%).

(d) Accumulated Other Comprehensive Income

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

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

NOTE 18
REVENUE

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

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

The components of revenue from hotel properties are as follows:

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

The components of management and advisory fees are as follows:

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

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

NOTE 19
INTEREST EXPENSE

The components of interest expense are as follows:

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

NOTE 20
FAIR VALUE GAIN, NET

The components of fair value gain are as follows:

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

NOTE 21
OTHER INCOME

The components of other income are as follows:

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

NOTE 22
RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Notes 8 and 11, related party transactions also include the following:

(a) Paros Enterprises Limited ("Paros")

Paros is the majority shareholder and ultimate parent of the Company. Paros is owned by the Company's Chairman and Chief Executive Officer, Mr. K. Rai Sahi. The Company entered into a demand loan agreement with Paros that provides for the Company to borrow up to $22,000. The total loan payable outstanding from Paros as at December 31, 2019 was $nil (2018 - $12,500). During the year ended December 31, 2019, the Company incurred net interest expense of $71 (2018 - $28).

(b) TWC Enterprises Limited ("TWC")

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the year ended December 31, 2019, the Company received a management fee of $1,305 (2018 - $1,439), and paid rent and operating expenses of $730 (2018 - $680).

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at December 31, 2019 was $33,679 (2018 - $47,809). During the year ended December 31, 2019, the Company paid net interest of $1,489 (2018 - $238).

(c) Share/Unit Purchase and Other Loans

As at December 31, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,504 (2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable in the consolidated balance sheets. As at December 31, 2019, the fair market value of the common shares/Units held as collateral is $101,756.

(d) Key Management Compensation

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

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

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

NOTE 23
INCOME TAXES
(a) Income Tax Expense:

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

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

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

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

(c) The Company's Tax Losses:

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

As at December 31, 2019, the Company's Canadian subsidiaries have total net operating losses of approximately $205,433 (2018 - $191,263) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which they can be utilized. These losses expire in various years commencing 2022. As at December 31, 2019, the Company has other Canadian temporary differences, of which no deferred tax asset was recognized for approximately $43,952 (2018 - $26,360). These other temporary differences have no expiration date.

(d) Other Temporary Differences:

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

NOTE 24
NET INCOME PER COMMON SHARE

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

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

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

(b) Net Change in Operating Assets and Liabilities

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

(c) Supplemental Cash Flow Information

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

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

(d) Reconciliation of Liabilities Arising from Financing Activities
The following provides a reconciliation of liabilities arising from financing activities:

	Mortgages payable	Unsecured debentures	Convertible debentures	Lease liabilities	Loans payable	Bank indebtedness	Total
Balance, beginning of year	$4,362,701	$597,697	$227,999	$9,754	$60,309	$225,160	$5,483,620
Adoption of IFRS 16	—	—	—	161,614	—	—	161,614
Repayments	(110,771)	—	—	(2,099)	(91,996)	(504,404)	(709,270)
New financing, net	472,706	447,575	—	725	69,212	380,344	1,370,562
Lump-sum repayments	(371,260)	—	(39,636)	—	—	—	(410,896)
Non-cash changes	78,581	1,172	5,140	(3,348)	—	—	81,545
Foreign exchange	(66,678)	—	—	(502)	(3,846)	—	(71,026)
Balance, December 31, 2019	**$4,365,279**	**$1,046,444**	**$193,503**	**$166,144**	**$33,679**	**$101,100**	**$5,906,149**

NOTE 26
EMPLOYEE FUTURE BENEFITS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 27
CONTINGENCIES
(a) Commitments

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

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

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

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

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

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

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

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

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

(b) Contingencies

Ground Lease #1 represents the lease associated with the land underlying a mixed-use property located in Toronto, Ontario. Since the lessor and the Company were not able to reach an agreement on the fair market value of the land on the last scheduled reset date of July 1, 2010, the matter was appointed to an arbitration tribunal (the "Arbitrators"). On June 21, 2013, a majority of the Arbitrators awarded their decision and concluded on a land value that resulted in the annual land rent increasing from $2,779 to $10,962 (the "Majority Decision"). In accordance with the Majority Decision, the Company has recorded the land rent based on the increased annual rent of $10,962.

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

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

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

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

(c) Franchise Agreements

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

NOTE 28
MANAGEMENT OF CAPITAL

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

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

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

As at December 31	2019	2018
Mortgages payable, principal balance	**$4,375,947**	$4,369,811
Unsecured Debentures, principal balance	**1,050,000**	600,000
Convertible debentures, principal balance	**195,500**	235,136
Loans payable	**33,679**	60,309
Bank indebtedness	**101,100**	225,160
Lease liabilities	**166,144**	9,754
Shareholders' equity	**3,548,906**	3,431,366
	$9,471,276	$8,931,536

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

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

NOTE 29

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,406,348 (2018 - $4,428,532), compared with the carrying value of $4,375,947 (2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price (Level 1). As at December 31, 2019, the fair value of the Unsecured Debentures has been estimated at $1,070,033 (2018 - $603,624) compared with the carrying value of $1,050,000 (2018 - $600,000).

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

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using December 31, 2019, market rates for debt on similar terms (Level 3). Based on these assumptions, as at December 31, 2019, the fair value of the finance lease receivable has been estimated at $56,574 (2018 - $55,941).

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

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

Risks Associated with Financial Assets and Financial Liabilities

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

(a) Market Risk

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

Interest Rate Risk

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

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

Foreign Exchange Risk

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

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

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

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

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

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

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

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

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

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

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

NOTE 30
SEGMENTED INFORMATION
(a) Operating Segments
The Company has the following five reportable segments after aggregation: (i) multi-suite residential, (ii) retail, (iii) office, (iv) industrial, and (v) hotel. The Company has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

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

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

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

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

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at December 31, 2018						
Real estate/hotel properties	$4,586,202	$2,642,745	$2,250,514	$166,135	$666,078	$10,311,674
Mortgages payable	$2,010,392	$913,478	$983,750	$31,826	$423,255	$4,362,701
For the year ended December 31, 2018						
Additions to real estate/hotel properties	$147,952	$92,183	$239,875	$45,532	$52,062	$577,604
Fair value gain (loss) on real estate properties	$275,203	($49,086)	$6,279	$6,577	$—	$238,973

(b) Regional Segments

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

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

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

NOTE 31
SUBSEQUENT EVENTS

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

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

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