MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2020 SECOND QUARTER MORGUARD REIT

OPPORTUNITY FROM DECISIVE ACTION

TABLE OF CONTENTS

SUMMARY OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands of dollars, except per-unit amounts	2020	2019	2020	2019
Revenue from real estate properties	**$59,300**	$67,008	**$125,673**	$137,462
Net operating income	**27,200**	36,957	**62,028**	74,817
Fair value losses on real estate properties	**(111,430)**	(24,602)	**(232,547)**	(30,282)
Net (loss)/income	**(98,814)**	(4,701)	**(201,369)**	12,214
Funds from operations	**13,152**	21,999	**33,110**	45,085
Adjusted funds from operations [1]	**10,032**	15,838	**23,763**	32,697
Amounts presented on a per unit basis				
Net (loss)/income – basic	**($1.60)**	($0.08)	**($3.29)**	$0.20
Net (loss)/income – diluted	**($1.60)**	($0.08)	**($3.29)**	$0.20
Funds from operations – basic	**$0.21**	$0.36	**$0.54**	$0.74
Funds from operations – diluted	**$0.21**	$0.35	**$0.53**	$0.71
Adjusted funds from operations – basic [1]	**$0.16**	$0.26	**$0.39**	$0.54
Adjusted funds from operations – diluted [1]	**$0.16**	$0.26	**$0.39**	$0.53
Distributions per unit	**$0.16**	$0.24	**$0.40**	$0.48
Payout ratio – Adjusted funds from operations	**100.0%**	92.3%	**102.6%**	88.9%
Weighted average number of units (in thousands)				
Basic	**61,567**	60,705	**61,152**	60,700
Diluted	**70,145**	69,283	**69,731**	69,279

1. The Trust uses normalized productive capacity maintenance expenditures to calculate adjusted funds from operations.

SUMMARY OF FINANCIAL POSITION

As at	June 30, 2020	December 31, 2019	June 30, 2019
Total assets (thousands of dollars)	**$2,750,019**	$2,937,341	$2,983,511
Total gross debt (thousands of dollars)	**1,372,814**	1,352,545	1,362,982
Total equity (thousands of dollars)	**1,319,042**	1,537,468	1,563,684
Gross leasable area as at quarter-end (in thousands of square feet) [1]			
Retail	**4,652**	4,778	4,749
Office	**3,240**	3,240	3,240
Industrial	**292**	292	534
Total	**8,184**	**8,310**	**8,523**
Occupancy as at quarter-end (%) [2]			
Retail	**94.5%**	95.1%	94.2%
Office	**90.6%**	91.6%	91.7%
Industrial	**94.9%**	90.7%	90.3%
Total	**92.9%**	93.5%	93.0%

1. Excludes equity-accounted investment.
2. Excludes properties held for sale, area either held for or under development and equity accounted investment.

PART I

BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") for Morguard Real Estate Investment Trust (the "Trust"), should be read in conjunction with the Trust's condensed consolidated financial statements and the accompanying notes for the three months and six months ended June 30, 2020, and 2019.

The Trust's condensed consolidated financial statements and the accompanying notes for the three months and six months ended June 30, 2020, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These condensed consolidated financial statements include the accounts of the Trust and other entities that the Trust controls and are reported in thousands of Canadian dollars, except where otherwise noted.

The information in this MD&A is current to July 29, 2020.

FORWARD-LOOKING DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words "anticipate", "believe", "may", "continue", "estimate", "expects", "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 Trust 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 Trust; and other factors including risks and uncertainties relating to the COVID-19 pandemic referred to in the Trust's filings with Canadian securities regulators. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Trust does not assume the obligation to update or revise any forward-looking statements.

Given the impact of the changing circumstances surrounding the COVID-19 pandemic and the related response from the Trust, governments (federal, provincial and municipal), regulatory authorities, businesses and customers, there is inherently more uncertainty associated with the Trusts assumptions as compared to prior periods. These assumptions and related risks, many of which are confidential, include but are not limited to management expectations with respect to the factors above as well as general economic conditions, which includes the impact on the economy and financial markets of the COVID-19 pandemic and other health risks.

FINANCIAL MEASURES

The Trust 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 standard 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 supplemental in nature, and not as substitutes for related financial information prepared in accordance with IFRS. The Trust's management uses these measures to aid in assessing the Trust'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 Trust's operating results and performance.

NET OPERATING INCOME ("NOI")

NOI is defined by the Trust as revenue from real estate properties less property operating expenses, property taxes and property management fees, as presented in the consolidated statements of (loss)/income and comprehensive (loss)/income. NOI is used as a key indicator of performance as it represents a measure over which management has control, and is a key input in determining the value of the Trust's properties.

NET OPERATING INCOME – SAME ASSETS

NOI – same assets is a non-GAAP measure used by the Trust to assess period-over-period performance of those properties that are stabilized and owned by the Trust continuously for the current and comparable reporting period. The Trust believes it is useful to provide an analysis of NOI – same assets, which also eliminates non-recurring and non-cash items. NOI – same assets represents NOI from properties that have been adjusted for: (i) acquisitions; (ii) dispositions; and (iii) area either held for, or under, development/redevelopment/intensification. NOI – same assets also excludes the impact of straight-line rents, lease cancellation fees and other non-recurring items.

FUNDS FROM OPERATIONS ("FFO")

FFO is a non-GAAP measure that is widely accepted as a supplemental measure of financial performance for real estate entities. The Trust presents FFO in accordance with the current definition of the Real Property Association of Canada ("REALpac"). The Trust defines FFO as net income adjusted for fair value changes on real estate properties and gains/(losses) on the sale of real estate properties. It does not represent amounts available for capital programs, debt service obligations, commitments or uncertainties. FFO should not be interpreted as an indicator of cash generated from operating activities and is not indicative of cash available to fund operating expenditures or for the payment of cash distributions. FFO is simply one measure of operating performance.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

AFFO is a non-GAAP measure that was developed to be a recurring economic earnings measure for real estate entities. The Trust presents AFFO in accordance with the current definition of the REALpac. The Trust defines AFFO as FFO adjusted for straight-line rent and productive capacity maintenance expenditures ("PCME"). AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital.

ADJUSTED CASH FLOW FROM OPERATIONS ("ACFO")

ACFO is a non-GAAP measure intended as a supplemental measure of sustainable economic cash flow for real estate entities. The Trust presents ACFO in accordance with the current definition of the REALpac. The Trust defines ACFO as cash flow from operating activities as per the condensed consolidated financial statements adjusted by: (i) adding back the non-recurring change in non-cash operating assets and liabilities; (ii) deducting normalized PCME; (iii) adding back actual additions to tenant incentives and leasing commissions; (iv) deducting amortization of deferred financing costs; and (v) an adjustment for the portion relating to equity-accounted investment in each of the above adjustments.

PROPORTIONATE SHARE BASIS

The Trust's balance sheets, statements of income and statements of cash flows, all prepared in accordance with IFRS, have been adjusted (as described below) to derive the Trust's proportionately owned financial results ("Proportionate Basis"). Management believes that the Proportionate Basis non-IFRS measures described below, which supplement the IFRS measures, provide readers with a more comprehensive understanding of management's perspective on the Trust's operating results and performance.

Equity interest adjusts interests in joint arrangements that are accounted for using the equity method of accounting. The financial results of one property under IFRS is presented on a single line within the condensed consolidated balance sheets and statements of (loss)/income and comprehensive (loss)/income and has been adjusted on a proportionately owned basis to each respective financial statement line presented within the balance sheets, statements of (loss)/income and comprehensive (loss)/income and statements of cash flows (see Part VIII). The presentation of *pro rata* assets, liabilities, revenue and expenses represents a non-IFRS measure and may not accurately depict the legal and economic implications of the Trust's interest in the joint venture.

ADDITIONAL INFORMATION

Additional information relating to the Trust, including the audited annual consolidated financial statements, Annual Information Form ("AIF"), Material Change Reports and all other continuous disclosure documents required by securities regulators, are filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed electronically at www.sedar.com.

REVIEW AND APPROVAL BY THE BOARD OF TRUSTEES

The Board of Trustees ("the Trustees"), upon the recommendation of its Audit Committee, approved the contents of this MD&A on July 29, 2020.

PART II

BUSINESS OVERVIEW AND STRATEGY

The Trust's primary business goal is to accumulate a Canadian portfolio of high-quality real estate assets and then deliver the benefits of such real estate ownership to unitholders. The primary benefit is a reliable and, over time, increasing cash distribution. The Trust manages distributions to ensure sufficient cash is retained to meet fixed obligations while ensuring a stable cash flow to unitholders.

The Trust is an unincorporated "closed-end" trust, governed by the laws of the Province of Ontario, created and constituted pursuant to an amended and restated Declaration of Trust dated May 5, 2015 ("Declaration of Trust"). The Trust was formed on June 18, 1997, and began operations on October 14, 1997. The Trust units are publicly traded and listed on the Toronto Stock Exchange ("TSX") under the symbol MRT.UN.

Morguard Corporation ("Morguard") is the parent company of the Trust, owning 59.38% of the outstanding units as at June 30, 2020. Morguard is a real estate company that owns a diversified portfolio of multi-unit residential, retail, hotel, office and industrial properties in both Canada and the United States.

The Trust's asset management team is focused on continually improving the returns from the assets currently owned, and making quality acquisitions that are accretive in the long term. As part of its strategy to continually improve the quality of its property portfolio, the Trust undertakes the disposition of properties in cases where both the cash flows and values have been maximized, where the properties no longer fit the Trust's portfolio or where market trends indicate that superior investment return opportunities are available elsewhere.

The Trust's management team is incentivized to maintain occupancy levels and rents that outperform local markets. The Trust has established standards for maintaining the quality of its portfolio and operating its properties at cost levels that are competitive in their respective markets. These efforts are enhanced through a sustainability program that tracks utility usage and savings over time. These savings are returned to our tenants through reduced operating costs, increasing the Trust's reputation as a responsible landlord.

The Trust's management team is supported by contracted property management. The choice to contract for property management provides the Trust with a day-to-day operating platform that is both "best-in-class" and cost effective. Property management services are delivered through a management agreement with Morguard Investments Limited ("MIL"). MIL is a full-service real estate advisory company wholly owned by Morguard. MIL also provides advisory and management services to institutional and other investors not related to Morguard or the Trust. The Trust's agreement with MIL provides property management services at predetermined rates based on a percentage of revenue. This provides predictability to a key component of operating costs. In addition, MIL provides the Trust with leasing services across the full portfolio. With MIL locations across the country, the Trust benefits from local market knowledge and local broker relationships. An annual review of this agreement, combined with MIL's institutional client base, ensures that rates for services reflect current market conditions.

The Trust's long-term debt strategy involves the use of conventional property-specific secured mortgages or bonds, unsecured convertible debentures and secured floating-rate bank financing. The Trust currently targets a capital structure with an overall indebtedness ratio in the range of 50-55% of gross assets. Through its Declaration of Trust, the Trust has the ability to increase its overall indebtedness ratio to 60%.

In this MD&A, the discussion of the Trust's property performance for the purpose of *some* measures is focused on income producing properties ("IPP"), excluding properties held for development, area under development and properties held for sale. The Trust defines these excluded areas as follows:

Properties held for development: These properties, while income producing, operate with future opportunity in mind. As a result, management will enter into lease arrangements with shorter lease terms and options to exit the lease at the landlord's request. As a result, these properties do not deliver the same results (rental rates) as other IPP.

Area under development: When circumstances warrant, the Trust will reposition component parts of its properties. When this occurs, the associated area ("area under development") is not available for occupancy. As a result, this area is not income producing.

Properties held for sale: The Trust will undertake to actively dispose of certain assets. In these circumstances, management has determined that the performance of the ongoing operations is of the greatest importance to stakeholders.

PORTFOLIO OVERVIEW

The risk and reliability characteristics of real estate asset classes are different, and delivering on the primary business goal requires a mix of assets that balance risk and rewards. As at June 30, 2020, the Trust owned a diversified real estate portfolio of 48 retail, office and industrial properties consisting of approximately 8.3 million square feet of gross leasable area ("GLA") located in the provinces of British Columbia ("BC"), Alberta, Saskatchewan, Manitoba, Ontario and Quebec. Included in this portfolio are two properties that the Trust has deemed as held for development, and one office property, consisting of 0.2 million square feet of GLA, located in the province of Alberta, which is accounted for using the equity method.

Retail: The retail portfolio includes two broad categories of income producing properties: enclosed full-scale, regional shopping centres that are dominant in their respective markets; and community strip centres that are primarily anchored by food retailers, discount department stores and banking institutions. Investing across these two broad categories of retail assets allows the Trust to spread its tenant base, reducing its exposure to a single category retailer.

Office: The office portfolio is focused on well-located, high-quality properties in major Canadian urban centres. The portfolio is balanced between single-tenant properties under long-term lease to government and large national tenants that work to secure the Trust's cash flow, and multi-tenant properties with well-distributed lease expiries that allow the Trust to benefit from increased rental rates on lease renewal.

Industrial: The Trust has an interest in four industrial properties located in Ontario.

PORTFOLIO COMPOSITION BY ASSET TYPE AND LOCATION

	Retail		Office		Industrial		Total		
Location	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	%
British Columbia	2	503	3	600	—	—	5	1,103	14%
Alberta	5	821	9	1,169	—	—	14	1,990	25%
Saskatchewan	1	497	—	—	—	—	1	497	6%
Manitoba	3	660	—	—	—	—	3	660	8%
Ontario	8	2,094	8	980	4	292	20	3,366	41%
Quebec	—	—	1	448	—	—	1	448	6%
	19	**4,575**	**21**	**3,197**	**4**	**292**	**44**	**8,064**	**100%**
IPP held for development	1	67	1	43	—	—	2	110	
Income producing properties	**20**	**4,642**	**22**	**3,240**	**4**	**292**	**46**	**8,174**	
Properties held for sale/sold (Ontario)	1	10	—	—	—	—	1	10	
Total real estate properties	**21**	**4,652**	**22**	**3,240**	**4**	**292**	**47**	**8,184**	
Equity-accounted investment (Alberta)	—	—	1	152	—	—	1	152	
Grand Total	**21**	**4,652**	**23**	**3,392**	**4**	**292**	**48**	**8,336**	
% [1]		**56%**		**40%**		**4%**		**100%**	

1. Excluding IPP held for development, properties held for sale/sold, and equity-accounted investment.

ENCLOSED REGIONAL CENTRES OVERVIEW

At June 30, 2020, the Trust's enclosed regional centres portfolio totalled 3.3 million square feet of GLA, which comprises a 100% interest in six regional centres totalling 3.3 million square feet and a 50% interest in one additional centre totalling 0.1 million square feet. Included in the above 3.3 million square feet of GLA is 0.3 million square feet of area either held for, or under, development.

COMMUNITY STRIP CENTRES OVERVIEW

At June 30, 2020, the Trust's community strip centres portfolio totalled 1.3 million square feet of GLA, comprising a 100% interest in 13 such properties totalling 1.2 million square feet, as well as a 50% interest in one additional property totalling 0.1 million square feet. Included in the above 1.3 million square feet of GLA is 0.1 million square feet of area either held for, or under, development.

SINGLE-/DUAL-TENANT BUILDINGS OVERVIEW

At June 30, 2020, the Trust's single-/dual-tenant buildings portfolio totalled 2.4 million square feet of GLA, which comprises a 100% interest in nine properties totalling 1.5 million square feet and a 50% interest in four properties totalling 0.9 million square feet. Included in the above 2.4 million square feet of GLA is 0.2 million square feet of area relating to the Trust's equity accounted investment, and area either held for, or under, development.

MULTI-TENANT BUILDINGS OVERVIEW

At June 30, 2020, the Trust's multi-tenant buildings portfolio totalled 1.0 million square feet of GLA, which comprises a 100% interest in six properties totalling 0.6 million square feet, a 50% interest in three properties totalling 0.3 million square feet and a 20% interest in one property totalling 0.1 million square feet.

INDUSTRIAL OVERVIEW

At June 30, 2020, the Trust's industrial portfolio totalled 0.3 million square feet of GLA, and includes 100% interest in four industrial properties comprising 0.3 million square feet. This portfolio includes some retail store fronts.

PART III

TRUST PERFORMANCE

SIGNIFICANT EVENT – COVID-19

In March 2020 the outbreak of the novel strain of coronavirus ("COVID-19") resulted in governments enacting emergency measures to combat the spread of the virus. These measures, included the implementation of travel bans, quarantine periods and physical distancing, and have contributed to an economic recession along with material disruption to business. Governments have reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, although the curtailment of spread in Canada is encouraging. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial performance and financial position of the Trust in future periods.

The Trust recognizes the impact of COVID-19 on many of its tenants and its stakeholders and is committed to taking measures to protect the health of its employees, tenants and communities in which it operates. In March, the Trust initiated its crisis management plan with a team mandated to maintain a safe environment for its tenants, employees and stakeholders, coordinating efforts across its portfolio, standardizing communications and responding as circumstances demand.

Everyone has been impacted by the global efforts to reduce the spread of COVID-19. With the guidance of public health authorities, and at the direction of various levels of government, the Trust has implemented measures to help reduce the spread of COVID-19 including:

- intensified cleaning, focusing staff efforts on cleaning high-touch point areas at all our properties using approved cleaning products;
- management offices are staffed but doors are locked;
- maintenance orders for non-emergency repairs have been deferred;
- added additional hand sanitizers to help tenants maintain recommended practices for hand washing;
- posted health and safety best practice reminders to increase awareness of the most current guidelines; and
- managing elevator, lobby and mall traffic to ensure proper physical distancing protocols are maintained

The Trust is actively monitoring the ongoing developments with regards to COVID-19 and is committed to ensuring a healthy and safe environment, adjusting its service model as necessary.

Management has concluded that it is important for the Trust to play an important role in helping the tenants that have been negatively impacted by the pandemic. As such, the Trust is participating in the Canada Emergency Commercial Rent Assistance ("CECRA") program as described below and have also been in discussions with larger tenants on a case-by-case basis to determine rent payment solutions.

CECRA Program

The Government of Canada has partnered with the provincial governments to deliver the CECRA program. The program is intended to provide relief for small business tenants of commercial landlords who are experiencing financial difficulties during the COVID-19 Pandemic.

Over the course of the program, property owners that participate in the program will reduce rent by at least 75% for the months of April, May, June, and July 2020 for their small business tenants that qualify. The Government of Canada, via a forgivable loan, will cover 50% of the rent, with the tenant paying up to 25% and the landlord forgiving at least 25%.The interest-free loans will be forgiven on December 31, 2020 if the property owner agrees to terms, including reducing the small business tenants' rent by at least 75% under a rent reduction agreement. To ensure loan forgiveness, the property owner must follow the terms and conditions of the loan, including complying with the rent reduction agreement.

There are qualifying criteria for this program for the small business tenants which includes gross rent less than $50,000 per month per a particular tenant in addition to suffering a 70% decline in revenue for April to June 2020.

The Trust has decided that it is important for it to participate in the program and is actively working with tenants to determine their qualification. The Trust is currently finalizing the applications under the CECRA program..

The amount forgiven by the landlord under the CECRA program (25%) is recorded in the financial statements as a bad debt expense. The estimated cost to the Trust of this program is $1.4 million for the three months ended June 30, 2020.

Collections Update

Due to non-essential business closure orders issued by the various provinces in Canada, the majority of the Trust's retail tenants were closed for portions of the second quarter. The easing of these restrictions varied by province and by industry. All of the Trust's enclosed malls are now open and the vast majority of tenants are allowed to operate. The dates that the Trust's enclosed malls were available to be open for business, along with statistics on traffic, are summarized below.

Property	Non-Essential Business Orders Lifted	Approximate Traffic May 2020	Approximate Traffic June 2020	Approximate Traffic July 2020
Pine Centre Mall	N/A	40%	70%	75%
Prairie Mall	May 14, 2020	25%	65%	80%
Parkland Mall	May 14, 2020	25%	60%	70%
The Centre [1]	May 19, 2020	N/A	N/A	N/A
Shoppers Mall	May 4, 2020	30%	80%	90%
Cambridge Centre	June 12, 2020	5%	35%	50%
St. Laurent	June 12, 2020	10%	30%	50%

1. Traffic counts for The Centre are not available due to the construction project ongoing.

MIL is working with all tenants that have arrears to review their situation and to consider rent payment solutions as necessary. Deferrals and abatements are being considered on a case-by-case basis, depending on the financial condition of the tenant and the fact situation in regards to the temporary closure of their business (if applicable). It was difficult to engage with tenants in a meaningful manner in regards to their arrears until they had visibility as to the economic landscape post closure, as well as having a more comprehensive understanding of the CECRA program.

The following is an analysis of collections by segment, by month, including expected collections for July 2020:

	Approximate Contribution to Revenue	Percentage Collections as of July 28, 2020			
		April 2020	May 2020	June 2020	July 2020
Industrial	1%	76%	71%	69%	67%
Office – west	23%	99%	98%	98%	99%
Office – east (Ontario and Quebec)	20%	89%	86%	78%	80%
Retail – community strip centres	15%	80%	78%	76%	81%
Retail – enclosed regional centres	41%	39%	39%	46%	56%
Total	**100%**	**70%**	**69%**	**70%**	**75%**

Approximately 10% of the Q2 arrears have been collected in July and a further 15% of the balance is subject to deferral arrangements.

Operational Update
In response to the decline in collections, there has been a deferral of discretionary capital spending. Also, available deferrals of sales taxes, payroll taxes, property taxes and utility payments offered by the various levels of government have been acted upon. However, most of these deferrals initially acted upon have been reversed by the end of the second quarter.

The amount of PCME spending for 2020 will be less than typical levels. Discretionary spending is being reviewed in order to consider deferrals to later periods. The Trust has narrowed the scope of its capital expenditure program to ensure the availability of resources. Leasing capital will still be spent as opportunities arise in addition to capital needed for any structural or safety purposes. The development project at The Centre in Saskatoon is ongoing and the project at Pine Centre in Prince George is complete, pending the lease up of the remaining space.

The Trust has applied to the Canada Emergency Wage Subsidy ("CEWS") program offered by the federal government.

The extent of the impact will vary depending on the duration of the closures and the general economic activity in Canada and the United States. The duration of the COVID-19 pandemic and the pace of recovery following the pandemic cannot be accurately predicted at this time. All of the forgoing could negatively impact the Trust's future financial performance.

Failed Tenants
Various tenants have filed for both creditor and bankruptcy protection within the second quarter of 2020. There are a number of locations which are being negotiated to keep open which would need to be at a restructured rent. Management believes that the majority of these locations will remain open as a part of these negotiations. An analysis of these tenants is as follows:

	Number of Locations Closed	Number of Locations Under Negotiation	Number of Locations Remaining Open
Aldo	—	—	6
Reitmans	—	—	3
Nygard	5	—	—
Stokes	—	5	—
Bestseller	1	—	1
Comark [1]	—	—	15
GNC	2	—	—
DAVIDs TEA	—	5	—
Ascena Retail Group (Justice)	1	—	—
	9	**10**	**25**

1. Comark includes Ricki's, Cleo and Bootlegger

Financial Update
The Trust has available liquidity of $54.0 million as of June 30, 2020, and also has an unencumbered asset pool of $327.7 million in order to raise necessary capital, if required. Available liquidity as of December 31, 2019, was $51.9 million.

	Amount
Line of credit availability	$47,694
Cash	6,257
Liquidity	53,951
Estimated upfinancing closing in Q3 2020	75,000
Asset held for sale (closing August 2020)	6,800
Pro-Forma liquidity	**$135,751**

The Trust is working on a number of financings which will provide additional upfinancing proceeds of approximately $75.0 million. All of these financings are mortgages that mature in the third quarter of 2020.

Further, there is an asset that is under contract for sale which is expected to close in August 2020 for estimated proceeds of $6.8 million. This asset is known as Home Base in Ottawa, and has been vacant for the last two years.

SELECTED FINANCIAL INFORMATION

The table below sets forth selected financial data relating to the Trust's fiscal three and six months ended June 30, 2020, and 2019. This financial data is derived from the Trust's condensed consolidated statements which are prepared in accordance with IFRS.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
Revenue from real estate properties	**$59,300**	$67,008	(11.5%)	**$125,673**	$137,462	(8.6%)
Bad debt expense	**(5,535)**	6	N/A	**(5,821)**	(100)	N/A
Property operating expenses	**(13,091)**	(16,161)	(19.0%)	**(29,556)**	(33,418)	(11.6%)
Property taxes	**(11,613)**	(11,688)	(0.6%)	**(24,164)**	(24,663)	(2.0%)
Property management fees	**(1,861)**	(2,208)	(15.7%)	**(4,104)**	(4,464)	(8.1%)
Net operating income	**27,200**	36,957	(26.4%)	**62,028**	**74,817**	**(17.1%)**
Interest expense	**(14,015)**	(14,663)	(4.4%)	**(28,587)**	(29,071)	(1.7%)
General and administrative	**(850)**	(1,146)	(25.8%)	**(1,930)**	(2,323)	(16.9%)
Other items	**(21)**	(18)	16.7%	**(41)**	2	N/A
Fair value losses on real estate properties	**(111,430)**	(24,602)	352.9%	**(232,547)**	(30,282)	667.9%
Net income/(loss) from equity-accounted investment	**302**	(1,229)	(124.6%)	**(292)**	(929)	(68.6%)
Net (loss)/income	**($98,814)**	($4,701)	N/A	**($201,369)**	**$12,214**	**N/A**
Net (loss)/income per unit – basic	**($1.60)**	($0.08)	N/A	**($3.29)**	$0.20	N/A
Funds from operations per unit – basic	**$0.21**	$0.36	(41.7%)	**$0.54**	$0.74	(27.0%)
Adjusted funds from operations per unit – basic	**$0.16**	$0.26	(38.5%)	**$0.39**	$0.54	(27.8%)

CONSOLIDATED OPERATING HIGHLIGHTS FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2020

Revenue from real estate properties includes contracted rent from tenants along with recoveries of property expenses (including property taxes). Revenue for the three months ended June 30, 2020, decreased 11.5% to $59.3 million from $67.0 million for the same period in 2019. This decrease is primarily due to reduced recoveries of operating costs and the rent relief granted to Obsidian Energy Limited ("Obsidian").

On March 30, 2020, the Trust announced the conclusion of its discussions with Obsidian regarding its tenancy in Penn West Plaza. It is estimated that this abatement will represent an annual reduction in the Trust's net operating income in the range of $6.5-$7.0 million.

The following is an analysis of revenue from real estate properties by segment:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Industrial	**$897**	$1,303	(31.2%)	**$1,711**	$2,499	(31.5%)
Office – Single-/dual-tenant buildings	**19,295**	21,707	(11.1%)	**40,422**	45,066	(10.3%)
Office – Multi-tenant buildings	**6,946**	7,908	(12.2%)	**15,017**	15,881	(5.4%)
Retail – Community strip centres	**8,733**	9,185	(4.9%)	**18,560**	18,981	(2.2%)
Retail – Enclosed regional centres	**23,429**	26,905	(12.9%)	**49,963**	55,035	(9.2%)
Total	**$59,300**	$67,008	(11.5%)	**$125,673**	$137,462	(8.6%)

The Trust has $24.3 million in Q2 2020 rent arrears outstanding as of June 30, 2020. IFRS requires the Trust to establish an expected credit loss on these arrears taking into account the credit worthiness of the tenants responsible for the arrears. The Trust concluded that the most effective manner in establishing such an allowance was to consider the different components relating to (a) abatements granted through CECRA participation; and (b) future expected credit loss (including failed tenants). A bad debt expense of $5.5 million has been recorded in relation to the above arrears.

The following is an analysis of the components of the expected credit loss recorded for the three months ended June 30, 2020:

	Q2 2020 Arrears	Bad Debt Expense
Abatements to be granted to tenants participating in CECRA	$4,200	$1,400
Future expected credit loss on all other tenants (including failed tenants)	20,131	4,135
Total	**$24,331**	**$5,535**

Property operating expenses for the three months ended June 30, 2020, decreased 19.0% to $13.1 million from $16.2 million for the same period in 2019. This decrease is primarily due to lower repair and maintenance expenses compared to the same period in 2019.

Net operating income for the three months ended June 30, 2020, declined 26.4% as compared to 2019. This decline was due to bad debt expense recorded for the quarter in addition to the decline in income for Penn West Plaza.

Interest expense for the three months ended June 30, 2020, decreased 4.4% to $14.0 million from $14.7 million for the same period in 2019. This decline is primarily due to the low interest rate environment and the impact on rates paid on the Trust's lines of credit.

The Trust records its income producing properties at fair value in accordance with IFRS. The financial results include fair value adjustments that are more significant than previous periods (for both the three month and six month periods). These adjustments are a result of the Trust's regular quarterly IFRS fair value process and include the impact of COVID-19 on the enclosed regional centres from the challenging retail landscape. In accordance with this policy, the following fair value adjustments by segment have been recorded:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Retail – enclosed regional centres	**($74,072)**	($29,446)	**($170,886)**	($40,556)
Retail – community strip centres	**(9,358)**	(2,572)	**(10,292)**	10,305
Office	**(26,652)**	8,183	**(50,204)**	423
Industrial	**(1,348)**	(767)	**(1,165)**	(454)
	($111,430)	($24,602)	**($232,547)**	($30,282)

The IFRS value of the Trust's enclosed mall portfolio has been reduced by $170.9 million since December 31, 2019. This included an average cap rate adjustment of 25 basis points in the first quarter along with changes in cash flow parameters in the second quarter. The second quarter changes represent changes to inputs into the forecasting of cash flows, including normalized vacancy rates, market rental rates, releasing assumptions and credit assumptions. The revised inputs into the discounted cash flow models have resulted in lower fair market values and higher implied overall cap rates.

The office fair value decline is due to the decline in Penn West Plaza arising from the discussions and resulting rent reduction granted to Obsidian, along with more conservative cash flow modelling assumptions.

Reported net loss for three months ended June 30, 2020, was $98.8 million as compared to net loss of $4.7 million in 2019. This change was attributed to the fair value losses recorded in 2020.

NET OPERATING INCOME BY ASSET TYPE AND LOCATION

The following is a geographical breakdown of the net operating income for the six months ended June 30, 2020.

	Retail		Office		Industrial		Total		
Location	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	%
British Columbia	2	$3,438	3	$6,544	—	$—	5	$9,982	16%
Alberta	5	4,465	9	12,561	—	—	14	17,026	28%
Saskatchewan	1	3,371	—	—	—	—	1	3,371	6%
Manitoba	3	5,768	—	—	—	—	3	5,768	9%
Ontario	8	13,235	8	7,950	4	937	20	22,122	36%
Quebec	—	—	1	2,825	—	—	1	2,825	5%
	19	30,277	21	29,880	4	937	44	61,094	**100%**
IPP held for development	2	669	1	344	—	(34)	3	979	
Income producing properties	**21**	**30,946**	**22**	**30,224**	**4**	**903**	**47**	**62,073**	
Properties held for sale/sold	—	(45)	—	—	—	—	—	(45)	
Total real estate properties	**21**	**30,901**	**22**	**30,224**	**4**	**903**	**47**	**62,028**	
Equity-accounted investment	—	—	1	2,138	—	—	1	2,138	
Grand Total	**21**	**$30,901**	**23**	**$32,362**	**4**	**$903**	**48**	**$64,166**	
% [1]		**49%**		**49%**		**2%**		**100%**	

1. Excluding IPP held for development, properties held for sale/sold, and equity-accounted investment.

COMPARATIVE NET OPERATING INCOME BY ASSET TYPE

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Enclosed regional centres	**$7,204**	$12,742	(43.5%)	**$19,612**	$26,587	(26.2%)
Community strip centres	**5,421**	5,869	(7.6%)	**11,289**	11,776	(4.1%)
Subtotal – retail	**12,625**	18,611	(32.2%)	**30,901**	38,363	(19.5%)
Single-/dual-tenant buildings	**11,235**	13,725	(18.1%)	**23,682**	27,358	(13.4%)
Multi-tenant buildings	**2,928**	3,711	(21.1%)	**6,542**	7,467	(12.4%)
Subtotal – office	**14,163**	17,436	(18.8%)	**30,224**	34,825	(13.2%)
Industrial	**412**	910	(54.7%)	**903**	1,629	(44.6%)
Net operating income	**$27,200**	$36,957	(26.4%)	**$62,028**	$74,817	(17.1%)

RETAIL PROPERTIES – NET OPERATING INCOME

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Revenue from real estate properties	**$32,162**	$36,090	(10.9%)	**$68,523**	$74,016	(7.4%)
Bad debt expense	**(4,756)**	(6)	N/A	**(5,034)**	7	N/A
Property operating expenses	**(6,526)**	(8,624)	(24.3%)	**(15,162)**	(17,877)	(15.2%)
Property taxes	**(7,285)**	(7,610)	(4.3%)	**(15,189)**	(15,225)	(0.2%)
Property management fees	**(970)**	(1,239)	(21.7%)	**(2,237)**	(2,558)	(12.5%)
Net operating income	**$12,625**	$18,611	(32.2%)	**$30,901**	$38,363	(19.5%)

The Trust's retail properties NOI for the three months ended June 30, 2020, was $12.6 million versus $18.6 million for the same period ended 2019, a decrease of $6.0 million. The decrease was mainly the result of bad debt expense of $4.8 million, stemming from the rent arrears from the economic impact of COVID-19, coupled with decreased basic rent of $0.6 million, and increased vacancy costs of $0.8 million.

The Trust's retail properties NOI for the six months ended June 30, 2020, was $30.9 million versus $38.4 million for the same period ended 2019, a decrease of $7.5 million. The decrease was mainly the result of bad debt expense of $5.0 million, stemming from the rent arrears from the economic impact of COVID-19, coupled with deceased basic rent of $1.4 million, increased vacancy costs of $1.4 million, and a decrease of $0.5 million in lease cancellation fees as compared to 2019. The portfolio benefited from the Trust's completed retail development projects, which contributed an additional $0.5 million during the year.

OFFICE PROPERTIES – NET OPERATING INCOME

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Revenue from real estate properties	**$26,241**	$29,615	(11.4%)	**$55,439**	$60,947	(9.0%)
Bad debt expense	**(703)**	11	N/A	**(710)**	(108)	557.4%
Property operating expenses	**(6,388)**	(7,434)	(14.1%)	**(14,007)**	(15,150)	(7.5%)
Property taxes	**(4,127)**	(3,815)	8.2%	**(8,687)**	(9,025)	(3.7%)
Property management fees	**(860)**	(941)	(8.6%)	**(1,811)**	(1,839)	(1.5%)
Net operating income	**$14,163**	$17,436	(18.8%)	**$30,224**	$34,825	(13.2%)

The Trust has a strong government presence in its office tenancy which helps mitigate the risk of non-payment of rent for this asset class. Approximately 26% of the Trust's office contracted gross revenue is attributable to government tenants.

The Trust's office properties NOI for the three months ended June 30, 2020, was $14.2 million versus $17.4 million for the same period ended 2019. The unfavourable variance of $3.3 million is mainly the result of the rent forgiveness agreement with Obsidian Energy Ltd impacting the quarter in the amount of $1.7 million, coupled with bad debt expense of $0.7 million, stemming from the rent arrears from the economic impact of COVID-19, and with decreased basic rent of $0.5 million.

The Trust's office properties NOI for the six months ended June 30, 2020, was $30.2 million versus $34.8 million for the same period ended 2019. The unfavourable variance of $4.6 million is mainly the result of the rent forgiveness agreement with Obsidian Energy Ltd in the amount of $2.9 million, coupled with an increase of $0.6 million in bad debt expense, stemming from the rent arrears from the economic impact of COVID-19, and with decreased basic rent of $0.5 million.

The majority of the bad debt expense is a result of small business office tenant participation in the CECRA program as the resulting one-quarter contribution to rent relief offered by the Trust.

INDUSTRIAL PROPERTIES – NET OPERATING INCOME

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Revenue from real estate properties	**$897**	$1,303	(31.2%)	**$1,711**	$2,499	(31.5%)
Bad debt expenese	**(77)**	—	—%	**(77)**	—	—%
Property operating expenses	**(176)**	(102)	72.5%	**(387)**	(390)	(0.8%)
Property taxes	**(201)**	(263)	(23.6%)	**(288)**	(413)	(30.3%)
Property management fees	**(31)**	(28)	10.7%	**(56)**	(67)	(16.4%)
Net operating income	**$412**	$910	(54.7%)	**$903**	$1,629	(44.6%)

The Trust's industrial properties NOI for the three months ended June 30, 2020, was $0.4 million versus $0.9 million for the same period ended 2019. The decrease of $0.5 million is the result of the sale of 825 Des Érables in July of 2019.

The Trust's industrial properties NOI for the six months ended June 30, 2020, was $0.9 million versus $1.6 million for the same period ended 2019. The decrease of $0.7 million is the result of the sale of 825 Des Érables in July of 2019.

NET OPERATING INCOME – SAME ASSETS

The components of net operating income – same assets are displayed in the table below. For comparability in this section, the NOI is focused on same assets which is a non-GAAP measure. Assets acquired, disposed of and developed/redeveloped/intensified over the comparable periods are removed, along with the impact of stepped rents, bad debt expense related to COVID-19, lease cancellation fees and area either held for, or under, development and other non-recurring adjustments, collectively; the adjustments for same assets.

For the three months ended June 30,	2020	2019	Variance	%
Enclosed regional centres	**$11,120**	$12,648	($1,528)	(12.1%)
Community strip centres	**5,520**	5,555	(35)	(0.6%)
Single-/dual-tenant buildings	**13,332**	13,601	(269)	(2.0%)
Multi-tenant buildings	**3,084**	3,567	(483)	(13.5%)
Industrial properties	**507**	472	35	7.4%
Net operating income – same assets before bad debt expense	**33,563**	35,843	(2,280)	(6.4%)
Bad debt expense related to COVID-19	**(5,448)**	—	(5,448)	N/A
Net operating income – same assets after bad debt expense	**28,115**	35,843	(7,728)	(21.6%)
Area under development	**440**	186	254	136.6%
Real estate properties held for development/held for sale/sold	**458**	762	(304)	(39.9%)
Lease cancellation fees	**41**	122	(81)	(66.4%)
Stepped rents	**(114)**	(56)	(58)	103.6%
Other (primarily Obsidian amendment)	**(1,740)**	100	(1,840)	N/A
Net operating income per the statement of income	**$27,200**	$36,957	($9,757)	(26.4%)

For the six months ended June 30,	2020	2019	Variance	%
Enclosed regional centres (retail)	**$23,363**	$26,026	($2,663)	(10.2%)
Community strip centres (retail)	**11,013**	11,078	(65)	(0.6%)
Single-/dual-tenant buildings (office)	**26,919**	27,034	(115)	(0.4%)
Multi-tenant buildings (office)	**6,611**	7,220	(609)	(8.4%)
Industrial properties	**1,014**	867	147	17.0%
Net operating income – same assets before bad debt expense	**68,920**	72,225	(3,305)	(4.6%)
Bad debt expense related to COVID-19	**(5,448)**	—	(5,448)	N/A
Net operating income – same assets after bad debt expense	**63,472**	72,225	(8,753)	(12.1%)
Area under development	**685**	263	422	160.5%
Real estate properties held for development/held for sale/sold	**934**	1,529	(595)	(38.9%)
Lease cancellation fees	**52**	801	(749)	(93.5%)
Stepped rents	**(215)**	(1)	(214)	N/A
Other (primarily Obsidian amendment)	**(2,900)**	—	(2,900)	—%
Net operating income per the statement of income	**$62,028**	$74,817	($12,789)	(17.1%)

LEASING ACTIVITY

The table below provides a summary of the leasing activity for the six months ended June 30, 2020.

For the six months ended June 30, 2020	Enclosed Regional Centres	Community Strip Centres	Single-/ Dual-Tenant Buildings	Multi-Tenant Buildings	Industrial Properties	Total Portfolio
Opening vacancy (SF)	187,377	24,657	46,752	223,079	27,275	509,140
Opening occupancy	93.8%	98.0%	97.9%	77.6%	90.7%	93.5%
EXPIRING LEASES:						
Square feet	255,581	13,634	25,129	77,775	2,695	374,814
Average contract rent per SF	$21.40	$25.88	$30.98	$17.21	$13.00	$21.30
EARLY TERMINATIONS:						
Square feet	24,108	40,854	523	22,142	4,679	92,306
Average contract rent per SF	$28.99	$17.21	$13.00	$18.60	$11.00	$20.28
RENEWALS:						
Square feet	(156,655)	(13,637)	(1,816)	(39,767)	(2,695)	(214,570)
Average contract rent per SF	$17.35	$26.65	$20.00	$16.51	$13.00	$17.87
Retention rate	61%	100%	7%	51%	100%	57%
NEW LEASING:						
Square feet	(125,928)	(8,028)	(11,463)	(40,489)	(16,951)	(202,859)
Average contract rent per SF	$14.13	$32.21	$15.75	$12.86	$7.50	$14.13
OTHER ADJUSTMENTS:						
Square feet	28,193	(34,281)	—	—	—	(6,088)
Ending vacancy (SF)	212,676	23,199	59,125	242,740	15,003	552,743
Ending occupancy	93.1%	98.1%	97.3%	75.6%	94.9%	92.9%

LEASE PROFILE

The table below provides a summary of the lease maturities for the next four years and thereafter, along with the associated contract rents at maturity. Current vacancy excludes area either held for, or under, development/sale.

	Retail		Office		Industrial		Total	
	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent
(remainder of the year) 2020	641,716	$23.76	112,528	$26.27	4,675	$10.55	758,919	$24.09
2021	899,248	14.33	401,743	20.84	73,997	8.01	1,374,988	15.95
2022	502,583	26.21	241,582	19.15	16,580	10.29	760,745	23.53
2023	407,741	27.21	274,362	16.77	44,013	6.79	726,116	22.03
2024	205,373	32.43	163,569	30.97	74,577	5.63	443,519	27.38
Thereafter	1,389,938	24.14	1,702,436	22.93	63,486	8.97	3,155,860	23.17
Current vacancy	235,875	—	301,865	—	15,003	—	552,743	—
Total	**4,282,474**	**$22.95**	**3,198,085**	**$22.32**	**292,331**	**$7.58**	**7,772,890**	**$22.08**

Weighted average remaining lease term (years)	4.09	4.71	3.55	4.32

Lower weighted average contract rent for the year 2021 (retail) is the result of anchor tenant lease maturities. This amounts to 552,194 square feet at a weighted average contract rate of $6.40. It is expected that these anchor tenants will exercise their options to renew.

REMAINING 2020 EXPIRIES BY PROVINCE

	Retail		Office		Industrial		
Province	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	Total SF
Alberta	112,615	$18.70	34,063	$13.50	—	$—	146,678
British Columbia	1,610	39.59	263	15.00	—	—	1,873
Manitoba	74,928	28.65	—	—	—	—	74,928
Ontario	376,692	26.53	51,143	31.88	4,675	10.55	432,510
Quebec	—	—	27,059	31.84	—	—	27,059
Saskatchewan	75,871	13.17	—	—	—	—	75,871
	641,716	**$23.76**	**112,528**	**$26.27**	**4,675**	**$10.55**	**758,919**

2021 EXPIRIES BY PROVINCE

	Retail		Office		Industrial		
Province	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	Total SF
Alberta	276,856	$13.82	62,210	$13.39	—	$—	339,066
British Columbia	1,910	36.35	221,722	24.54	—	—	223,632
Manitoba	43,687	32.02	—	—	—	—	43,687
Ontario	560,286	12.59	116,240	17.75	73,997	8.01	750,523
Quebec	—	—	1,571	22.00	—	—	1,571
Saskatchewan	16,509	33.22	—	—	—	—	16,509
	899,248	**$14.33**	**401,743**	**$20.84**	**73,997**	**$8.01**	**1,374,988**

Lower weighted average contract rent for the year 2021 (retail) is the result of anchor tenant lease maturities. In Alberta, this amounts to 141,978 square feet at a weighted average contract rate of $7.56. In Ontario, this amounts to 410,216 square feet at a weighted average contract rate of $6.22. It is expected that these anchor tenants will exercise their options to renew.

The majority of the square footage expiring in 2021 in British Columbia relates to two tenants in 111 Dunsmuir in Vancouver. Five year renewals have been completed with both tenants totalling approximately 200,000 square feet at an average rate expected to be approximately $30 per square foot.

Not included in the above table is the expiry at Petroleum Plaza, located in Alberta, which is accounted for using the equity method. This property has 152,146 square feet of GLA (at the Trust's share) and is fully leased to the provincial government, expiring January 1, 2021. The contract rent on the expiring lease is $27.00. The Trust expects the tenant to renew at market rates.

CHANGES IN GLA

The table below provides a summary of the changes in GLA for the six months ended June 30, 2020.

In thousands of SF	Enclosed Regional Centres	Community Strip Centres	Total Retail	Single-/ Dual-Tenant Buildings	Multi-Tenant Buildings	Total Office	Industrial Properties	Total Portfolio
GLA – opening balance – January 1, 2020	3,454	1,324	**4,778**	2,246	994	**3,240**	**292**	**8,310**
Cambridge Centre – Sears (2nd floor)	(69)	—	**(69)**	—	—	**—**	**—**	**(69)**
Pine Centre – Common area (Former Sears)	(36)	—	**(36)**	—	—	**—**	**—**	**(36)**
Other	(21)	—	**(21)**	—	—	**—**	**—**	**(21)**
GLA – closing balance – June 30, 2020	**3,328**	**1,324**	**4,652**	**2,246**	**994**	**3,240**	**292**	**8,184**
Area under/held for development/sale	(258)	(111)	**(369)**	(43)	—	**(43)**	**—**	**(412)**
GLA for purposes of occupancy	**3,070**	**1,213**	**4,283**	**2,203**	**994**	**3,197**	**292**	**7,772**
Occupied GLA	**2,857**	**1,190**	**4,047**	**2,144**	**751**	**2,895**	**277**	**7,219**
Occupied GLA (%)	**93.1 %**	**98.1 %**	**94.5 %**	**97.3 %**	**75.6 %**	**90.6 %**	**94.9 %**	**92.9 %**

CORPORATE ITEMS

INTEREST EXPENSE

Interest expense totalled $28.6 million for the six months ended June 30, 2020, compared to $29.1 million for the same period in 2019. The components of interest expense are as follows:

INTEREST EXPENSE

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Mortgages payable	**$10,617**	$11,002	(3.5%)	**$21,335**	$22,129	(3.6%)
Amortization of deferred financing costs – mortgages	**116**	152	(23.7%)	**299**	307	(2.6%)
Convertible debentures	**1,963**	1,963	—%	**3,905**	3,905	—%
Accretion on convertible debentures, net	**255**	242	5.4%	**508**	481	5.6%
Amortization of deferred financing costs – convertible debentures	**270**	255	5.9%	**536**	507	5.7%
Lease liabilities	**173**	175	(1.1%)	**346**	350	(1.1%)
Bank indebtedness	**372**	763	(51.2%)	**1,125**	1,116	0.8%
Morguard loan payable and other	**411**	227	81.1%	**858**	591	45.2%
Capitalized interest	**(162)**	(116)	39.7%	**(325)**	(315)	3.2%
	$14,015	**$14,663**	**(4.4%)**	**$28,587**	**$29,071**	**(1.7%)**

Interest on bank indebtedness has decreased 51% for the three months ended June 30, 2020, due to the decline in interest rates. Interest on Morguard loan payable has increased due to enhanced usage compared to the same period in 2019.

FAIR VALUE (LOSSES)/GAINS ON REAL ESTATE PROPERTIES

For the six months ended June 30, 2020, the Trust recorded fair value losses on real estate properties of $232.5 million, versus $30.3 million of fair value losses on real estate properties for 2019.

Fair value adjustments are determined on a quarterly basis based on the movement of various parameters, including changes in projected cash flows as a result of leasing, timing and changes in discount rates, and terminal capitalization rates.

Fair value (losses)/gains on real estate properties consist of the following:

FAIR VALUE (LOSSES)/GAINS ON REAL ESTATE PROPERTIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Retail – enclosed regional centres	**($74,072)**	**($29,446)**	**($170,886)**	($40,556)
Retail – community strip centres	**(9,358)**	**(2,572)**	**(10,292)**	10,305
Office	**(26,652)**	**8,183**	**(50,204)**	423
Industrial	**(1,348)**	**(767)**	**(1,165)**	(454)
	($111,430)	**($24,602)**	**($232,547)**	**($30,282)**

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

Morguard's subsidiary has a valuation team that 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 and undertake ongoing professional development. Morguard's appraisal division is responsible for determining the fair value of investment properties every quarter. The team reports to a senior executive, and the internal valuation team's valuation processes and results are reviewed by senior management at least once every quarter, in line with the Trust's quarterly reporting dates.

Generally, the Trust's real estate properties are appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization approach and a direct comparison approach. The primary method of valuation used by the Trust is discounted cash flow analysis. This approach involves determining the fair value of each income producing property based on, 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 outflows pertaining to the respective leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years and including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income.

Using the direct capitalization income approach to corroborate the discounted cash flow method, the properties were valued using capitalization rates in the range of 4.3% to 8.5% applied to a stabilized net operating income (December 31, 2019 – 4.3% to 8.5%), resulting in an overall weighted average capitalization rate of 6.60% (December 31, 2019 – 6.38%). The total stabilized annual net operating income as at June 30, 2020, was $159,821 (December 31, 2019 – $171,345).

The stabilized capitalization rates by business segments are set out in the following table:

STABILIZED CAPITALIZATION RATES

	June 30, 2020					December 31, 2019				
	Stabilized Occupancy		Capitalization Rates			Stabilized Occupancy		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Retail	**100.0%**	**90.0%**	**7.3%**	**5.3%**	**6.9%**	100.0%	90.0%	7.3%	5.3%	6.5%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.3%**	100.0%	90.0%	8.5%	4.3%	6.3%
Industrial	**100.0%**	**95.0%**	**5.5%**	**5.3%**	**5.4%**	100.0%	95.0%	5.5%	5.3%	5.4%

The table below provides further details of the discount rates and terminal cap rates used in the discounted cash flow method by business segments:

DISCOUNT AND TERMINAL CAPITALIZATION RATES

	June 30, 2020			December 31, 2019		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
RETAIL						
Discount rate	**8.0 %**	**6.0 %**	**7.1 %**	7.8 %	6.0 %	6.9 %
Terminal cap rate	**7.0 %**	**5.3 %**	**6.2 %**	7.0 %	5.3 %	6.0 %
OFFICE						
Discount rate	**7.8 %**	**5.3 %**	**6.3 %**	7.8 %	5.3 %	6.3 %
Terminal cap rate	**7.3 %**	**4.3 %**	**5.5 %**	7.3 %	4.3 %	5.5 %
INDUSTRIAL						
Discount rate	**6.5 %**	**6.0 %**	**6.2 %**	6.5 %	6.0 %	6.2 %
Terminal cap rate	**5.8 %**	**5.5 %**	**5.5 %**	5.8 %	5.5 %	5.5 %

Excluded from the above analysis is a retail property located in British Columbia where the highest and best use is a redevelopment to mixed residential and commercial use. As at June 30, 2020, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent land sales with comparable redevelopment potential.

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 to the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points, the value of the income producing properties as at June 30, 2020, would decrease by $88,876 or increase by $95,922, respectively.

The sensitivity of the fair values of the Trust's income producing properties is set out in the table below:

SENSITIVITY ANALYSIS

For the six months ended	June 30, 2020	
Change in capitalization rate	**0.25%**	**(0.25%)**
Retail	**($46,756)**	**$50,297**
Office	**(40,470)**	**43,816**
Industrial	**(1,650)**	**1,809**
	($88,876)	**$95,922**

NET (LOSS)/INCOME FROM EQUITY-ACCOUNTED INVESTMENT

For the six months ended June 30, 2020, the Trust incurred $0.3 million in losses from its equity-accounted investment compared to $0.9 million in losses for the same six months ended June 30, 2019. The favourable variance of $0.6 million is largely the result of the recorded loss from fair value on the investment of $2.0 million in 2020, versus a loss of $2.6 million in 2019.

PRODUCTIVE CAPACITY MAINTENANCE EXPENDITURES

PCME are expenditures on leasing, replacement or major repair of component parts of properties that are required to preserve the existing earning capacity of the Trust's real estate portfolio. The Trust categorizes these expenditures as leasing commissions, tenant allowances and recoverable and non-recoverable capital expenditures.

Leasing Commissions and Tenant Allowances: The Trust requires ongoing capital spending on leasing commissions, tenant incentives and tenant improvements pertaining to new and renewed tenant leases. These costs depend on many factors, including, but not limited to, tenant maturity profile, vacancies, asset type, prevailing market conditions and unforeseen tenant bankruptcies.

Recoverable and Non-Recoverable Capital Expenditures: The Trust continually invests in major repair and replacement of component parts of the properties, such as roof, parking lot, elevators and HVAC. These costs depend on many factors including, but not limited to, age and location of the property. Most of these capital expenditure items are recovered from tenants, over time, as property operating costs.

The Trust uses normalized PCME to calculate AFFO. Normalized PCME are an estimate made by management of the amount of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. Management considers a number of factors in estimating normalized PCME relative to the growth in age and size of the Trust's property portfolio. Such factors include, but are not limited to, review and analysis of three years of historical capital spending, comparison of each quarter's annualized actual spending activity to annual budgeted capital expenditures as approved by the Trustees and management's expectations and/or plans for the properties. A purposeful decline in spending brought about by the economic impact of COVID-19 has resulted in a decline in the annual normalized PCME to be expected. This has led management to conclude that as of April 1, 2020, normalized PCME has decreased from $25.0 million per annum to $12.5 million (or $3.125 million per quarter) for the remainder of 2020. It is expected that due to the wide disparity in planned PCME spending for both 2020 and 2021 as compared to past years that allowance thresholds will be determined for each of these two years as warranted.

Since actual capital expenditures can vary widely from one period to another, depending on a number of factors, management believes that normalized PCME are a more relevant input than actual PCME in assessing the Trust's distribution payout ratio and for determining an appropriate level of sustainable distributions over time. The factors affecting variations in actual PCME include, but are not limited to, lease expiry profile, tenant vacancies, age and location of the properties, general economic and market conditions, which impact the level of tenant bankruptcies and acquisitions and dispositions.

The following table provides a breakdown of actual PCME for the three and six months ended June 30, 2020, and 2019.

ACTUAL PRODUCTIVE CAPACITY MAINTENANCE EXPENDITURES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Leasing commissions	**$361**	$804	**$966**	$1,503
Tenant allowances	**975**	2,076	**3,016**	3,651
Total leasing costs	**1,336**	2,880	**3,982**	5,154
Capital expenditures recoverable from tenants	**690**	2,344	**2,011**	3,067
Capital expenditures non-recoverable from tenants	**12**	150	**29**	131
Total capital expenditures	**702**	2,494	**2,040**	3,198
Total PCME	**2,038**	5,374	**6,022**	8,352
Discretionary capital expenditures	**—**	—	**—**	1
Total leasing costs and capital expenditures	**$2,038**	$5,374	**$6,022**	$8,353
Total PCME	**$2,038**	$5,374	**$6,022**	$8,352
Normalized PCME	**3,125**	6,250	**9,375**	12,500
Shortfall between total PCME and normalized PCME	**$1,087**	$876	**$3,353**	$4,148

Discretionary Capital Expenditures

In addition to PCME, the Trust invests in discretionary capital projects on the development of new space, redevelopment or retrofit of existing properties, and other capital expenditures to create additional long-term value for the Trust's real estate portfolio. These discretionary capital expenditures are not expected to occur on a consistent basis. These expenditures are included in the above table, along with the recoverable and non-recoverable capital expenditures.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

The Trust presents FFO and AFFO in accordance with the current definition of the Real Property Association of Canada ("REALpac").

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

In thousands of dollars, except per unit amounts	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Net (loss)/income	**($98,814)**	($4,701)	2,002.0%	**($201,369)**	$12,214	(1,748.7%)
Adjustments:						
Fair value losses on real estate properties [1]	**111,975**	26,709	319.2%	**234,498**	32,887	613.0%
Amortization of right-of-use assets	**21**	20	5.0%	**41**	41	—%
Payment of lease liabilities, net	**(30)**	(29)	3.4%	**(60)**	(57)	5.3%
Funds from operations – basic	**13,152**	21,999	(40.2%)	**33,110**	45,085	(26.6%)
Interest expense on convertible debentures	**1,963**	1,963	—%	**3,905**	3,905	—%
Funds from operations – diluted	**$15,115**	$23,962	(36.9%)	**$37,015**	$48,990	(24.4%)
Funds from operations – basic	**$13,152**	$21,999	(40.2%)	**$33,110**	$45,085	(26.6%)
Adjustments:						
Amortized stepped rents [1]	**5**	89	(94.4%)	**28**	112	(75.0%)
Normalized PCME	**(3,125)**	(6,250)	(50.0%)	**(9,375)**	(12,500)	(25.0%)
Adjusted funds from operations – basic	**10,032**	15,838	(36.7%)	**23,763**	32,697	(27.3%)
Interest expense on convertible debentures	**1,963**	1,963	—%	**3,905**	3,905	—%
Adjusted funds from operations – diluted	**$11,995**	$17,801	(32.6%)	**$27,668**	$36,602	(24.4%)
FUNDS FROM OPERATIONS PER UNIT						
Basic	**$0.21**	$0.36	(41.7%)	**$0.54**	$0.74	(27.0%)
Diluted [2]	**$0.21**	$0.35	(40.0%)	**$0.53**	$0.71	(25.4%)
ADJUSTED FUNDS FROM OPERATIONS PER UNIT						
Basic	**$0.16**	$0.26	(38.5%)	**$0.39**	$0.54	(27.8%)
Diluted [2]	**$0.16**	$0.26	(38.5%)	**$0.39**	$0.53	(26.4%)
DISTRIBUTIONS						
Distributions declared per unit	**$0.16**	$0.24	(33.3%)	**$0.40**	$0.48	(16.7%)
Distributions as a percentage of AFFO per unit – basic	**100.0%**	92.3%	8.3%	**102.6%**	88.9%	15.4%
WEIGHTED AVERAGE UNITS OUTSTANDING (IN THOUSANDS)						
Basic	**61,567**	60,705	1.4%	**61,152**	60,700	0.7%
Diluted [2]	**70,145**	69,283	1.2%	**69,731**	69,279	0.7%

1. Includes respective adjustments included in net income from equity-accounted investment.
2. Includes the dilutive impact of convertible debentures.

The Trust's funds from operations for the three months and six months ended June 30, 2020, have decreased as compared to 2019 due to the bad debt expense of $5.5 million booked for the quarter in addition to the rent relief offered to Obsidian at Penn West Plaza.

ADJUSTED CASH FLOW FROM OPERATIONS

The Trust presents ACFO in accordance with the current definition of REALpac.

ADJUSTED CASH FLOW FROM OPERATIONS

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Cash provided by operating activities	**($6,594)**	$20,407	(132.3%)	**$14,224**	$33,771	(57.9%)
Adjustments:						
Adjustment to working capital changes for ACFO [1]	**24,921**	8,690	186.8%	**21,283**	14,980	42.1%
Normalized PCME	**(3,125)**	(6,250)	(50.0%)	**(9,375)**	(12,500)	(25.0%)
Actual additions to tenant incentives and leasing commissions	**617**	850	(27.4%)	**1,307**	1,546	(15.5%)
Amortization of deferred financing costs	**(386)**	(407)	(5.2%)	**(835)**	(814)	2.6%
Payment of lease liabilities	**(30)**	(29)	3.4%	**(60)**	(57)	5.3%
ACFO from equity-accounted investment	**22**	284	(92.3%)	**547**	601	(9.0%)
Adjusted cash flow from operations – basic	**15,425**	23,545	(34.5%)	**27,091**	37,527	(27.8%)
Interest expense on convertible debentures	**1,963**	1,963	—%	**3,905**	3,905	—%
Adjusted cash flow from operations – diluted	**$17,388**	$25,508	(31.8%)	**$30,996**	$41,432	(25.2%)
Adjusted cash flow from operations – basic	**$15,425**	$23,545	(34.5%)	**$27,091**	$37,527	(27.8%)
Distributions declared	**9,883**	14,569	(32.2%)	**24,461**	29,136	(16.0%)
Shortfall adjusted cash flow from operations over distributions declared	**$5,542**	$8,976	(38.3%)	**$2,630**	$8,391	(68.7%)

1. See Adjustment to Working Capital Changes for ACFO below.

The following table provides a breakdown of the working capital changes, not indicative of sustainable cash flows available for distribution, which have been excluded in the calculation of ACFO:

ADJUSTMENT TO WORKING CAPITAL CHANGES FOR ACFO

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Development accruals	**$2,338**	$754	210.1%	**$2,316**	$3,155	(26.6%)
Prepaid realty taxes and insurance	**602**	4,666	(87.1%)	**5,067**	10,346	(51.0%)
Interest payable and receivable	**1,913**	1,996	(4.2%)	**16**	132	(87.9%)
Insurance claims	**(639)**	1,274	(150.2%)	**(346)**	1,347	(125.7%)
Deferrals related to COVID-19 (primarily rent arrears)	**20,707**	—	—%	**14,230**	—	—%
Adjustment to working capital changes for ACFO	**24,921**	8,690	186.8%	**21,283**	14,980	42.1%
Net change in non-cash operating assets and liabilities as per the financial statements	**(19,367)**	(1,228)	1,477.1%	**(18,421)**	(10,773)	71.0%
Net working capital changes included in ACFO	**$5,554**	$7,462	(25.6%)	**$2,862**	$4,207	(32.0%)

In the calculation of ACFO, the Trust makes an adjustment for certain working capital items that are not considered indicative of sustainable economic cash flow available for distribution. Examples include working capital changes related to development, prepaid realty taxes and insurance, interest payable and receivable, payments and proceeds from insurance claims, rent received in advance, and transaction cost accruals relating to acquisitions and dispositions of investment properties.

ACFO continues to include the impact of fluctuations from normal operating working capital, such as changes to net rent receivable from tenants, trade accounts payable and accrued liabilities.

Management analyzes working capital quarterly through a detailed review of all the working capital balances at the transactional level contained within each general ledger account. Significant individual transactions are reviewed based on management's experience and knowledge of the business, to identify those having seasonal fluctuations if related to sustainable operating cash flows or those transactions that are not relating to sustaining operating cash flows.

DISTRIBUTIONS TO UNITHOLDERS

The Trust's primary business goal is to accumulate a Canadian portfolio of high-quality real estate assets and then deliver the benefits of such real estate ownership to unitholders. The primary benefit is a reliable and, over time, increasing cash distribution.

The Trust expects to distribute to its unitholders in each year an amount not less than the Trust's taxable income for the year, as calculated in accordance with the *Income Tax Act* (Canada) ("the Act"). The Trust's monthly distribution to unitholders in 2020 was $0.08 per unit from January to April, and reduced to $0.04 per unit starting with the May distribution payable in June.

In determining the annual level of distributions to unitholders, the Trust looks at forward-looking cash flow information, including forecasts and budgets, and the future prospects of the Trust. The Trust does not consider periodic cash flow fluctuations resulting from items such as the timing of property operating costs, property tax instalments or semi-annual debenture interest payments in determining the level of distributions to unitholders in any particular quarter. Additionally, in establishing the level of cash distributions to the unitholders, the Trust considers the impact of, among other items, the future growth in IPP, the impact of future acquisitions and capital expenditures, and leasing costs. As a result, the Trust compares distributions to AFFO to ensure sufficient funds are retained for reinvestment.

The following is an analysis of 2020 monthly distributions:

Payment Date	Distribution Per-Unit	Distribution Amount	Cash Component	Unit Component
February 15, 2020	$0.08	$4,859	$4,816	$43
March 15, 2020	0.08	4,860	4,815	45
April 15, 2020	0.08	4,859	1,971	2,888
May 15, 2020	0.08	4,906	1,972	2,934
June 15, 2020	0.04	2,475	982	1,493
July 15, 2020	0.04	2,486	991	1,495

PART IV

REAL ESTATE OVERVIEW

The carrying value of the Trust's real estate properties decreased to $2.7 billion at June 30, 2020 (December 31, 2019 – $2.9 billion).

Income producing properties were affected by additions from the Trust's capital investment programs (including PCME and completed development), which were offset by property dispositions and fair value changes.

PROPERTIES UNDER DEVELOPMENT

The Trust's development program consists of projects identified by management to create additional long-term value for the Trust's real estate portfolio and align with the long-term strategic objectives. These may include development projects to expand leasable area, redevelopment of an existing area and retrofit opportunities.

The following is a list of development projects:

DEVELOPMENT PROJECTS

		Est. GLA						
	Portfolio	New	Under Develop- ment	Total	Est. Project Cost	Spend to Date	Completion Date	Comments
RETAIL								
Pine Centre Mall	Enclosed regional centres	—	27,400	27,400	$6,470	$2,579	Q1 2021	Anchor tenant remerchandising of former Sears space
The Centre	Enclosed regional centres	—	—	—	19,500	14,231	Q3 2020	Full-scale mall renovation
St. Laurent Centre	Enclosed regional centres	—	76,000	76,000	TBD	—	TBD	Anchor tenant remerchandising of portion of former Sears space
Cambridge Centre	Enclosed regional centres	—	69,000	69,000	TBD	—	TBD	Anchor tenant remerchandising of former Sears space
Development projects		**—**	**172,400**	**172,400**	**$25,970**	**$16,810**		

On July 31, 2019, the Trust announced the kickoff of a significant redevelopment project that will modernize the interior of Pine Centre Mall in Prince George, British Columbia and will refit the former Sears space to welcome new retailers and service providers. The Trust is investing approximately $17.0 million in the renovation project for the shopping centre, which also includes a new mall entrance. The main tenants taking over this space so far are Winners/Homesense (which anchors the development), Orange Theory Fitness, and BC Cannabis. Tenant fixturing was completed during the quarter, resulting in all tenants opening. A total of $9.4 million has been transferred to income producing properties from properties under development, representing the portion that has been completed and is in operation for the above three tenants.

DEVELOPMENT PROJECTS – COMPLETED IN 2020 & 2019

		GLA								
	Portfolio	New	Re-developed	Total	Adjust-ment [1]	Income Producing	Completion Date	Total Project Cost	Occupancy % [2]	Comments
RETAIL										
Pine Centre Mall	Enclosed regional centres	7,000	—	7,000	(200)	6,800	Q1 2019	$3,494	100.0%	Construction of new freestanding pad space
Parkland Mall	Enclosed regional centres	—	56,500	56,500	(15,900)	40,600	Q1 2019	8,977	75.3%	Anchor tenant remerchandising of former Safeway space
The Centre	Enclosed regional centres	29,500	—	29,500	—	29,500	Q4 2019	9,857	100.0%	Construction of new freestanding pad space for Cineplex Odeon
Pine Centre Mall	Enclosed regional centres	—	84,750	84,750	(36,000)	48,750	Q2 2020	9,365	100.0%	Anchor tenant remerchandising of former Sears space
		36,500	**141,250**	**177,750**	**(52,100)**	**125,650**		**$31,693**		

1. GLA adjustment due to reconfiguration caused by change in use.
2. Represents occupied GLA for development projects as a percentage of total GLA for development projects.

For the six months ended June 30, 2020, the projects completed since January 1, 2019, contributed $0.7 million in NOI (incrementally $0.4 million over 2019).

PART V

LIQUIDITY AND CAPITAL RESOURCES

DEBT AND LEVERAGE METRICS

	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019	For the six months ended June 30, 2019
Interest coverage ratio [1]	**2.07**	2.51	2.44
Debt service coverage ratio [1]	**1.26**	1.58	1.56
Debt ratio [2]	**49.7 %**	45.8 %	45.1 %
Weighted average rates on mortgages	**4.1 %**	4.1 %	4.1 %
Average term to maturity on mortgages (years)	**3.2**	3.7	3.7
Distributions as a percentage of adjusted funds from operations – basic	**102.6 %**	88.1 %	88.9 %
Unencumbered assets to unsecured debt	**145.0 %**	151.2 %	166.7 %
Unencumbered assets	**$327,733**	$313,750	$325,995
Unsecured debt	**$226,000**	$207,500	$195,500
Line of credit availability	**$47,694**	$46,075	$52,897

1. See interest and debt service coverage ratio calculations below
2. Debt ratio defined as: Total indebtedness, divided by gross book value of total assets.

INTEREST AND DEBT SERVICE COVERAGE RATIOS

	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019	For the six months ended June 30, 2019
Net (loss)/income	**($201,369)**	$14,840	$12,214
Fair value losses on real estate properties	**232,547**	73,850	30,282
Amortization expense	**41**	83	41
Interest expense	**28,587**	58,006	29,071
Earnings before items noted above (A)	**59,806**	146,779	71,608
Interest expense	**28,587**	58,006	29,071
Add back capitalized interest expense	**325**	563	315
Gross interest expense (B)	**$28,912**	$58,569	$29,386
Interest coverage ratio (A)/(B)	**2.07**	2.51	2.44
Principal instalment repayments	**$18,560**	$34,237	$16,596
Gross interest expense	**28,912**	58,569	29,386
Debt service (C)	**$47,472**	$92,806	$45,982
Debt service coverage ratio (A)/(C)	**1.26**	1.58	1.56

CASH FLOWS

Cash flow generated from real estate operations represents the primary source of liquidity to service debt and to fund planned maintenance expenditures, tenant improvements and distributions to unitholders.

Cash flow from operations is dependent upon occupancy levels, rental rates achieved, collection of rents, efficiencies in operations and the cost to lease, as well as other factors.

The following table details the changes in cash for the following periods:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	%	**2020**	2019	%
Cash (used in)/provided by operating activities	**($6,594)**	$20,407	(132.3%)	**$14,224**	$33,771	(57.9%)
Cash provided by/(used in) financing activities	**12,904**	(7,447)	(273.3%)	**5,484**	(12,624)	(143.4%)
Cash used in investing activities	**(7,216)**	(9,041)	(20.2%)	**(19,234)**	(17,112)	12.4%
Net change in cash	**(906)**	3,919	(123.1%)	**474**	4,035	(88.3%)
Cash, beginning of period	**7,163**	10,768	(33.5%)	**5,783**	10,652	(45.7%)
Cash, end of period	**$6,257**	$14,687	(57.4%)	**$6,257**	$14,687	(57.4%)

Cash provided by operating activities for the six months ended June 30, 2020, decreased 57.9% to $14.2 million in 2020 from $33.8 million in 2019 mainly due to changes in working capital.

Cash used in financing activities decreased to $5.5 million in 2020 from $12.6 million in 2019 mainly due to changes in borrowing on bank lines and Morguard loan payable.

Cash used in investing activities increased to $19.2 million in 2020 from $17.1 million in 2019 due to increased spending on development projects during 2020 compared to 2019.

DEBT STRATEGY

The Trust's long-term debt strategy involves the use of three forms of debt: conventional property-specific secured mortgages or bonds, unsecured convertible debentures and secured floating-rate bank financing. The Trust's objective is to ensure that capital resources are readily available to meet obligations as they become due, to complete its approved capital expenditure program and to take advantage of attractive acquisitions as they arise.

The Trust is limited by its Declaration of Trust to an overall indebtedness ratio of 60% of the gross book value of the Trust's total assets determined in accordance with IFRS. The debt limitations are in relation to the assets of the Trust in aggregate. There are no individual property debt limitations or constraints imposed by the Declaration of Trust.

The Trust's current operating strategy involves maintaining debt levels in the range of 50-55% of the gross book value of total assets. Accordingly, the Trust does not generally repay maturing debt from cash flow, but rather with proceeds from refinancing such debt or financing unencumbered properties, and raising new equity or recycling equity through property dispositions to finance investment activities.

The Trust has a revolving loan agreement with Morguard that provides for borrowings or advances of up to $75.0 million, which is interest-bearing at the lender's borrowing rate and due on demand subject to available funds. This loan agreement is meant to provide short-term financing and investing options.

DEBT STRUCTURE

As at	June 30, 2020	%	December 31, 2019	%	June 30, 2019	%
Conventional secured mortgages payable	**$1,052,278**	**76.7 %**	$1,070,838	79.2 %	$1,088,479	79.8 %
Unsecured convertible debentures	**173,441**	**12.6 %**	172,933	12.8 %	172,470	12.7 %
Secured floating rate bank financing	**85,039**	**6.2 %**	65,158	4.8 %	70,358	5.2 %
Lease liabilities	**11,056**	**0.8 %**	11,116	0.8 %	11,175	0.8 %
Unsecured floating rate loan payable	**51,000**	**3.7 %**	32,500	2.4 %	20,500	1.5 %
Gross debt	**1,372,814**	**100.0 %**	1,352,545	100.0 %	1,362,982	100.0 %
Less deferred financing costs:						
Mortgages	**(1,911)**		(2,490)		(2,255)	
Convertible debentures	**(1,644)**		(2,180)		(2,668)	
Net debt	**$1,369,259**		$1,347,875		$1,358,059	

To manage long-term interest rate risk while providing flexibility in the execution of investment transactions, management has historically utilized floating interest rate debt at approximately 5% or less of the Trust's total debt.

CONVERTIBLE DEBENTURES

On December 30, 2016, the Trust issued a $175.0 million principal amount of 4.50% convertible unsecured subordinated debentures ("Convertible Debentures"), maturing on December 31, 2021 ("the Maturity Date"). Interest is payable semi-annually, not in advance, on June 30 and December 31 of each year.

The Convertible Debentures, with the exception of the value assigned to the holders' conversion option, have been recorded as debt on the consolidated balance sheets.

Conversion Rights: Each Convertible Debenture is convertible into freely tradable units of the Trust, at the option of the holder, exercisable at any time prior to the close of business on the last business day preceding the Maturity Date at a conversion price of $20.40 per unit, being a rate of approximately 49.0196 units per thousand principal amount of Convertible Debentures, subject to adjustment.

Redemption Rights: Each Convertible Debenture is redeemable any time from January 1, 2020, to the close of business on December 31, 2020, in whole or in part, on at least 30 days' prior notice at a redemption price equal to par plus accrued and unpaid interest, at the Trust's sole option, provided that the weighted average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which the notice of redemption is given is not less than 125% of the Conversion Price.

From January 1, 2021, to the close of business on December 31, 2021, the Convertible Debentures are redeemable, in whole or in part, at par plus accrued and unpaid interest, at the Trust's sole option.

Repayment Options Payment on Redemption or Maturity: The Trust may satisfy the obligation to repay the principal amount of the Convertible Debentures, in whole or in part, by delivering units of the Trust. In the event that the Trust elects to satisfy its obligation to repay principal with units of the Trust, the number of units issued is obtained by dividing the principal amount of the Convertible Debentures by 95% of the weighted average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days prior to the date fixed for redemption or the Maturity Date, as applicable.

Interest Payment Election: The Trust may elect, subject to applicable regulatory approval, to issue and deliver units of the Trust to the Debenture Trustee in order to raise funds to pay interest on the Convertible Debentures, in which event the holders of the Convertible Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such units.

DEBT MATURITY PROFILE

Management attempts to stagger the maturities of the Trust's fixed-rate debt with the general objective of achieving even annual maturities over a 10-year time horizon. The intention of this strategy is to reduce the Trust's exposure to interest rate fluctuations in any one period.

The Trust maintains mortgages with banks (48.7%), insurance companies (39.3%) and pension funds (12.0%) to reduce its exposure to any one lending group.

The following tables outline the debt payments as at June 30, 2020, together with the weighted average contractual rate on debt maturing in the years indicated. Also highlighted is the Trust's up-financing opportunity in relation to the fair value of encumbered properties relative to their respective maturing debt.

AGGREGATE MATURITIES

Year	Mortgage Maturity Payments	Scheduled Principal Repayments	Total Mortgages Payable	Debentures Payable	Bank Indebtedness	Revolving Loan	Lease Liabilities	Total Debt
2020	$113,951	$17,880	$131,831	$—	$85,039	$51,000	$61	$267,931
2021	169,373	30,516	199,889	175,000	—	—	133	375,022
2022	171,560	26,989	198,549	—	—	—	142	198,691
2023	208,194	16,821	225,015	—	—	—	139	225,154
2024	136,860	8,557	145,417	—	—	—	58	145,475
Thereafter	115,784	35,793	151,577	—	—	—	10,523	162,100
	$915,722	**$136,556**	**$1,052,278**	**$175,000**	**$85,039**	**$51,000**	**$11,056**	**$1,374,373**

INTEREST RATES

Year	Mortgages Payable	Debentures Payable	Bank Indebtedness	Revolving Loan	Lease Liabilities	Total Debt
2020	4.62%	—%	2.83%	3.80%	—%	3.92%
2021	4.14 %	4.50 %	— %	— %	— %	4.32 %
2022	3.84 %	— %	— %	— %	— %	3.84 %
2023	3.74 %	— %	— %	— %	7.25 %	3.75 %
2024	4.38 %	— %	— %	— %	— %	4.38 %
Thereafter	3.97 %	— %	— %	— %	6.22 %	4.10 %
	4.06%	**4.50%**	**2.83%**	**3.80%**	**6.24%**	**4.06%**

FAIR VALUE OF ENCUMBERED PROPERTIES RELATIVE TO MATURING DEBT

Year	Mortgage Maturity Payments	Scheduled Principal Repayments	Total	Fair Value of Encumbered Assets	Leverage
2020	$113,951	$1,328	$115,279	$367,700	31.4%
2021	169,373	6,480	175,853	486,600	36.1%
2022	171,560	18,794	190,354	255,600	74.5%
2023	208,194	23,182	231,376	391,050	59.2%
2024	136,860	22,595	159,455	314,690	50.7%
Thereafter	115,784	64,177	179,961	441,700	40.7%
	$915,722	**$136,556**	**$1,052,278**	**$2,257,340**	**46.6%**

The scheduled principal repayments above represent the payments assigned to each particular year which are tied to the maturities for that year. Given current real estate values, the Trust has an opportunity to increase financing as debt matures and still maintain the targeted loan-to-value ratio in the range of 50-55%.

2020 MORTGAGE MATURITIES

Within the third quarter of 2020 there are maturities which the Trust is anticipating to either be renewed or have potential upfinancing. The total upfinancing expected to be available is $75 million.

Management is expecting that there will be significant upfinancing potential with the 77 Bloor Street West maturity due to its low loan to value metric. Management is also working with Quebec and Alberta based incumbent lenders for the Place Innovation and Petroleum Plaza renewals, respectively.

Property	City	Province	Maturity Date	Interest rate	Maturing Balance
Q3 2020					
Heritage Towne Centre	Calgary	AB	August 1, 2020	3.89%	$15,930
Place Innovation	Saint-Laurent	QC	August 1, 2020	5.48 %	32,976
Heritage Place	Ottawa	ON	September 1, 2020	4.27 %	18,372
77 Bloor Street West	Toronto	ON	September 1, 2020	4.96 %	14,741
Petroleum Plaza	Edmonton	AB	September 1, 2020	3.86 %	24,526

The Heritage Towne Centre maturity was refinanced in July 2020 with a five year mortgage for total proceeds of $19.0 million at 3.25%.

CREDIT FACILITIES

As at June 30, 2020, the Trust has secured floating rate bank financing availability totalling $110 million, which renews annually and is secured by fixed charges on specific properties owned by the Trust. The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at June 30, 2020, the Trust was in compliance with all covenants and undertakings.

LIQUIDITY

As at	June 30, 2020	December 31, 2019
Availability of bank lines of credit	**$110,000**	$95,000
Availability of Morguard loan payable	**75,000**	50,000
Availability	**185,000**	145,000
Letters of credit outstanding	**(1,267)**	(1,267)
Bank indebtedness outstanding	**(85,039)**	(65,158)
Morguard loan payable outstanding	**(51,000)**	(32,500)
Subtotal	**47,694**	**46,075**
Cash	**6,257**	5,783
Liquidity	**$53,951**	**$51,858**

PART VI

ACCOUNTING POLICIES AND OTHER ITEMS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Trust's condensed consolidated financial statements for the three and six months ended June 30, 2020, and 2019, have been prepared in accordance with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual consolidated financial statements, except for the adoption of current accounting policies as described below, and should be read in conjunction with the most recent annual audited consolidated financial statements.

The MD&A for the year ended December 31, 2019, contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being primarily the accounting policies relating to estimates of fair value of real estate properties. Management determined that as at June 30, 2020, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2019.

RISKS AND UNCERTAINTIES

The Trust is exposed to risks as further analyzed and described in the annual MD&A for December 31, 2019. In addition to these risks, the following has been identified which can also impact the risks previously identified:

COVID-19 and Other Pandemic or Epidemic Diseases

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. Outbreaks, or the threat of outbreaks of viruses or other contagions or epidemic or pandemic diseases, including the recent COVID-19 outbreak, may lead to voluntary or mandatory building closures, business closures, government restrictions on travel and gatherings, quarantines, self-isolation and physical distancing. The impact of these measures may lead to a general shutdown of economic activity and disrupt workforce and business operations in Canada and the world. Such occurrences, including the outbreak of COVID-19, could have a material adverse effect on debt and capital markets, the demand for real estate in addition to the ability of tenants to pay rent. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. The pace of recovery following such occurrences cannot be accurately predicted, nor can the impact on the Trust's real estate valuations, equity markets, cash flows, results of operations and the Trust's ability to obtain additional financing or re-financing and ability to make distributions to unitholders.

Specifically, such enhanced risks associated with COVID-19 include, but are not limited to:

a. the negative impact on Canadian and global debt and equity capital markets, including both pricing and availability;
b. the ability to access capital markets at a reasonable cost;
c. the trading price of the Trust's securities;
d. a material reduction in rental revenue and related collections due to associated financial hardship and non-essential business orders governing the closure of certain businesses;
e. a material increase in vacancy potentially caused by both the resulting economic crisis and the inability of businesses to operate;
f. uncertainty of real estate valuations resulting from the impact of potential decline in revenue and/or lack of market activity and demand for real estate;
g. uncertainty delivering services due to illness, Trust or government imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions;
h. uncertainty associated with costs, delays and availability of resources required to complete major maintenance and expansion projects on time and budget;
i. a material reduction in revenue and related collections due to the impact that oil price challenges have on tenants that rely on this industry for their business success;
j. the impact of additional legislation, regulation, fiscal and monetary policy responses and other government interventions.

The foregoing is not an exhaustive list of all risk factors.

Developments in March and April 2020, regarding the COVID-19 pandemic, have resulted in a substantive shift in management's focus towards ensuring the continued health and safety of our employees and service partners, compliance with guidelines and requirements issued by various health authorities and government organizations, and continuity of other critical business operations. The Trust remains focused on delivering our key business operations.

RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

Under the property management agreement, the Trust pays MIL fees for property management services, capital expenditure administration, information system support activities and risk management administration. Property management fees average approximately 3.3% of gross revenue from the income producing properties owned by the Trust. The management agreement is renewed annually to ensure fees paid reflect fair value for the services provided. Under a leasing services arrangement, the Trust may, at its option, use MIL for leasing services. Leasing fees range from 2% to 6% of the total minimum rent of new leases. Fees for the renewal of a lease are half of the fees for a new lease. Leasing services include lease documentation.

The Trust has employed the services of MIL for both the acquisition and disposition of properties on a case-by-case basis. Fees are generally based on the sale price of the properties and are capitalized in the case of an asset acquisition. MIL is a tenant at three of the Trust's properties. The Trust has employed the services of MIL for the appraisal of its real estate properties as required for IFRS reporting purposes. Fees are generally based on the size and complexity of each property and are expensed as part of the Trust's professional and compliance fees.

During the year, the Trust incurred/(earned) the following:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Property management fees [1]	**$1,889**	$2,242	**$4,158**	$4,529
Appraisal/valuation fees	**88**	90	**177**	180
Information services	**55**	55	**110**	110
Leasing fees	**260**	760	**824**	1,176
Project administration fees	**55**	56	**135**	131
Project management fees	**101**	85	**173**	177
Risk management fees	**94**	94	**187**	180
Internal audit fees	**36**	34	**72**	68
Off-site administrative charges	**464**	451	**925**	903
Rental revenue	**(51)**	(50)	**(102)**	(101)
	$2,991	$3,817	**$6,659**	$7,353

1. Includes property management fees on equity-accounted investment.

The following amounts relating to MIL are included in the balance sheets:

As at	**June 30, 2020**	December 31, 2019
Amounts (receivable from)/payable to MIL, net	**($654)**	$1,527

(b) Revolving Loan with Morguard

The Trust has a revolving loan agreement with Morguard that provides for borrowings or advances of up to $75,000. The promissory notes are interest bearing at the lender's borrowing rate and are due on demand subject to available funds.

Morguard Loan Payable

During the six months ended June 30, 2020, a gross amount of $38,500 was advanced from Morguard, and a gross amount of $20,000 was repaid to Morguard. As at June 30, 2020, $51,000 remains payable to Morguard (December 31, 2019 – $32,500). For the three months ended June 30, 2020, the Trust incurred interest expense in the amount of $369 (2019 – $227) at an average interest rate of 3.80% (2019 – 4.98%). For the six months ended June 30, 2020, the Trust incurred interest expense in the amount of $778 (2019 – $591) at an average interest rate of 4.14% (2019 – 4.62%).

Morguard Loan Receivable

During the six months ended June 30, 2020, there were no advances or repayments, and as at June 30, 2020, there is no loan receivable from Morguard (December 31, 2019 – $nil). For the three months ended June 30, 2020, and 2019, the Trust did not earn interest income on loans receivable from Morguard. For the six months ended June 30, 2020, the Trust did not earn interest income on loans receivable from Morguard (2019 – $33), at an average interest rate of n/a (2019 – 5.05%). The interest income earned from Morguard is included with other income on the statements of (loss)/income and comprehensive (loss)/income.

(c) Sublease with Morguard (Excluding MIL)

The Trust subleases office space from Morguard. For the three months ended June 30, 2020, the Trust incurred rent expense in the amount of $60 (2019 – $61). For the six months ended June 30, 2020, the Trust incurred rent expense in the amount of $116 (2019 – $116).

(d) Amounts Receivable from and Accounts Payable to Morguard (Excluding MIL)

Other than the revolving loan, the following additional amounts relating to Morguard are included in the balance sheets:

As at	June 30, 2020	December 31, 2019
Amounts receivable	**$4**	$63
Accounts payable and accrued liabilities	**$142**	$124

(e) Rental Revenue from Morguard (Excluding MIL)

Morguard is a tenant in one of the Trust's properties. For the three months ended June 30, 2020, the Trust earned rental revenue in the amount of $28 (2019 – $27). For the six months ended June 30, 2020, the Trust earned rental revenue in the amount of $56 (2019 – $54).

FINANCIAL INSTRUMENTS

The following describes the Trust's financial instruments. The Trust's financial assets and financial liabilities comprise cash, amounts receivable, loan receivable, accounts payable and accrued liabilities, bank indebtedness, mortgages payable, Morguard loan payable, and convertible debentures (excluding any conversion option).

Financial assets must be classified and measured based on three categories: Amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("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:

The fair values of cash, amounts receivable, accounts payable and accrued liabilities, bank indebtedness and Morguard loan payable approximate their carrying values due to the short-term maturities of these instruments.

(a) Mortgages Payable

Mortgages payable are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are 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 Trust as at June 30, 2020.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using June 30, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at June 30, 2020, of the mortgages payable has been estimated at $1,090,721 (December 31, 2019 – $1,093,438) compared with the carrying value before deferred financing costs of $1,052,278 (December 31, 2019 – $1,070,838). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

(b) Convertible Debentures

The fair value of the Convertible Debentures is based on their market trading price (TSX: MRT.DB) (Level 1). The fair value as at June 30, 2020, of the Convertible Debentures has been estimated at $164,938 (December 31, 2019 – $177,188) compared with the carrying value before deferred financing costs of $173,441 (December 31, 2019 – $172,933).

PART VII

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented the design 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 of the internal controls with regard to financial information are effective using the Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework (2013). In order to ensure that the condensed consolidated financial statements and MD&A present fairly, in all material aspects, the financial position of the Trust 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.

In March, the Trust initiated its crisis management plan in response to the COVID-19 pandemic and social distancing measures which mandated its employee base to work remotely where possible, as well to maintain a safe environment for its employees and stakeholders, coordinating efforts across its portfolio, standardizing communications and responding as circumstances demand. The remote work arrangements did not have an impact on the design 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. The Trust will continue to monitor and mitigate the risks associated with changes to its control environment in response to COVID-19.

An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to the other reports filed or submitted under securities legislation. This policy aims, in particular, at identifying material information and validating the related reporting. Morguard's Disclosure Committee is responsible for ensuring compliance with this policy for both Morguard and the Trust. Morguard's and the Trust's senior management act 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

FINANCIAL STATEMENTS AT THE TRUST'S OWNERSHIP SHARE

Part VIII provides the reader with analysis of the Trust's financial statements and additional detail of the Trusts' equity-accounted investment to arrive at a presentation of the Trust's ownership share.

BALANCE SHEETS – AT THE TRUST'S OWNERSHIP SHARE

As at June 30, 2020	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
ASSETS			
Non-current assets			
Real estate properties	**$2,672,872**	**$47,350**	**$2,720,222**
Right-of-use asset	**283**	**—**	**283**
Equity-accounted investment	**22,740**	**(22,740)**	**—**
	2,695,895	**24,610**	**2,720,505**
Current assets			
Amounts receivable	**29,556**	**83**	**29,639**
Prepaid expenses and other	**11,511**	**66**	**11,577**
Cash	**6,257**	**419**	**6,676**
Real estate properties held for sale	**6,800**	**—**	**6,800**
	54,124	**568**	**54,692**
Total assets	**$2,750,019**	**$25,178**	**$2,775,197**
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	**$798,241**	**$—**	**$798,241**
Convertible debentures	**171,797**	**—**	**171,797**
Lease liabilities	**10,928**	**—**	**10,928**
Accounts payable and accrued liabilities	**5,428**	**4**	**5,432**
	986,394	**4**	**986,398**
Current liabilities			
Mortgages payable	**252,126**	**24,795**	**276,921**
Lease liabilities	**128**	**—**	**128**
Accounts payable and accrued liabilities	**56,290**	**379**	**56,669**
Morguard Loan payable	**51,000**	**—**	**51,000**
Bank indebtedness	**85,039**	**—**	**85,039**
	444,583	**25,174**	**469,757**
Total liabilities	**1,430,977**	**25,178**	**1,456,155**
Unitholders' equity	**1,319,042**	**—**	**1,319,042**
	$2,750,019	**$25,178**	**$2,775,197**

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME – AT THE TRUST'S OWNERSHIP SHARE

For the six months ended June 30, 2020	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
Revenue from real estate properties	**$125,673**	**$3,198**	**$128,871**
Property operating costs			
Property operating expenses	**(35,377)**	**(661)**	**(36,038)**
Property taxes	**(24,164)**	**(306)**	**(24,470)**
Property management fees	**(4,104)**	**(93)**	**(4,197)**
	62,028	**2,138**	**64,166**
Interest expense	**(28,587)**	**(481)**	**(29,068)**
General and administrative	**(1,930)**	**2**	**(1,928)**
Amortization expense	**(41)**	**—**	**(41)**
Fair value losses on real estate properties	**(232,547)**	**(1,951)**	**(234,498)**
Net loss from equity-accounted investment	**(292)**	**292**	**—**
Net loss and comprehensive loss	**($201,369)**	**$—**	**($201,369)**

For the six months ended June 30, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
Revenue from real estate properties	$137,462	$3,204	$140,666
Property operating costs			
Property operating expenses	(33,518)	(599)	(34,117)
Property taxes	(24,663)	(335)	(24,998)
Property management fees	(4,464)	(94)	(4,558)
	74,817	**2,176**	**76,993**
Interest expense	(29,071)	(500)	(29,571)
General and administrative	(2,323)	—	(2,323)
Amortization expense	(41)	—	(41)
Other income	43	—	43
Fair value losses on real estate properties	(30,282)	(2,605)	(32,887)
Net loss from equity-accounted investment	(929)	929	—
Net income and comprehensive income	**$12,214**	**$—**	**$12,214**

STATEMENTS OF CASH FLOWS – AT THE TRUST'S OWNERSHIP SHARE

For the six months ended June 30, 2020	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
OPERATING ACTIVITIES			
Net loss	**($201,369)**	**$—**	**($201,369)**
Add items not affecting cash	**234,648**	**1,869**	**236,517**
Distributions from equity-accounted investment, net	**673**	**(673)**	**—**
Additions to tenant incentives and leasing commissions	**(1,307)**	**—**	**(1,307)**
Net change in non-cash operating assets and liabilities	**(18,421)**	**(714)**	**(19,135)**
Cash provided by operating activities	**14,224**	**482**	**14,706**
FINANCING ACTIVITIES			
Financing costs on new mortgages	**280**	**—**	**280**
Repayment of mortgages			
Principal instalment repayments	**(18,560)**	**(530)**	**(19,090)**
Payment of lease liabilities, net	**(60)**	**—**	**(60)**
Proceeds from bank indebtedness, net	**19,881**	**—**	**19,881**
Proceeds from Morguard loan payable	**38,500**	**—**	**38,500**
Repayment of Morguard loan payable	**(20,000)**	**—**	**(20,000)**
Distributions to unitholders	**(14,557)**	**—**	**(14,557)**
Cash provided by/(used in) financing activities	**5,484**	**(530)**	**4,954**
INVESTING ACTIVITIES			
Capital expenditures on real estate properties	**(4,609)**	**(106)**	**(4,715)**
Expenditures on properties under development	**(14,625)**	**—**	**(14,625)**
Cash used in investing activities	**(19,234)**	**(106)**	**(19,340)**
Net change in cash	**474**	**(154)**	**320**
Cash, beginning of period	**5,783**	**573**	**6,356**
Cash, end of period	**$6,257**	**$419**	**$6,676**

STATEMENTS OF CASH FLOWS – AT THE TRUST'S OWNERSHIP SHARE (CONTINUED)

For the six months ended June 30, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
OPERATING ACTIVITIES			
Net income	$12,214	$—	$12,214
Add items not affecting cash	32,726	1,886	34,612
Distributions from equity-accounted investment, net	1,150	(1,150)	—
Additions to tenant incentives and leasing commissions	(1,546)	—	(1,546)
Net change in non-cash operating assets and liabilities	(10,773)	(33)	(10,806)
Cash provided by operating activities	**33,771**	**703**	**34,474**
FINANCING ACTIVITIES			
Proceeds from new mortgages	11,253	—	11,253
Financing costs on new mortgages	(81)	—	(81)
Repayment of mortgages			
Repayments on maturity	(16,253)	—	(16,253)
Principal instalment repayments	(16,596)	(509)	(17,105)
Payment of lease liabilities, net	(57)	—	(57)
Proceeds from bank indebtedness, net	2,698	—	2,698
Decrease in loan receivable	10,000	—	10,000
Proceeds from Morguard loan payable	51,500	—	51,500
Repayment of Morguard loan payable	(31,000)	—	(31,000)
Distributions to unitholders	(24,088)	—	(24,088)
Cash used in financing activities	**(12,624)**	**(509)**	**(13,133)**
INVESTING ACTIVITIES			
Capital expenditures on real estate properties	(6,543)	(265)	(6,808)
Expenditures on properties under development	(10,569)	—	(10,569)
Cash used in investing activities	**(17,112)**	**(265)**	**(17,377)**
Net change in cash	**4,035**	**(71)**	**3,964**
Cash, beginning of period	10,652	701	11,353
Cash, end of period	**$14,687**	**$630**	**$15,317**

PART IX

SUMMARY OF QUARTERLY RESULTS

The selected quarterly information highlights certain key metrics for the Trust over the most recently completed eight quarters. These measures from time to time may reflect fluctuations caused by the underlying impact of seasonal or non-recurring items, including acquisitions, divestitures, developments, leasing and maintenance expenditures, along with any associated financing requirements.

SUMMARY OF SELECTED QUARTERLY INFORMATION

In thousands of dollars, except per-unit amounts	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Revenue from real estate properties	**$59,300**	$66,373	$69,249	$66,363	$67,008	$70,454	$71,926	$67,273
Net operating income	**27,200**	34,828	38,757	36,387	36,957	37,860	40,370	37,200
Fair value losses on real estate properties	**(111,430)**	(121,117)	(28,640)	(14,928)	(24,602)	(5,680)	(17,800)	(16,867)
Net (loss)/income	**(98,814)**	(102,555)	(3,628)	6,254	(4,701)	16,915	6,992	4,981
Funds from operations	**13,152**	19,958	24,088	21,721	21,999	23,086	25,758	22,859
Adjusted funds from operations [3]	**10,032**	13,731	17,570	15,796	15,838	16,859	19,540	16,473
Net (loss)/income – basic	**($1.60)**	($1.69)	($0.06)	$0.10	($0.08)	$0.28	$0.11	$0.08
Net (loss)/income – diluted	**($1.60)**	($1.69)	($0.06)	$0.10	($0.08)	$0.25	$0.13	$0.08
Funds from operations – basic	**$0.21**	$0.33	$0.40	$0.36	$0.36	$0.38	$0.42	$0.38
Funds from operations – diluted	**$0.21**	$0.32	$0.38	$0.34	$0.35	$0.36	$0.40	$0.35
Adjusted funds from operations – basic [3]	**$0.16**	$0.23	$0.29	$0.26	$0.26	$0.28	$0.32	$0.27
Adjusted funds from operations – diluted [3]	**$0.16**	$0.23	$0.28	$0.26	$0.26	$0.27	$0.32	$0.26
Cash distributions per unit	**$0.16**	$0.24	$0.24	$0.24	$0.24	$0.24	$0.24	$0.24
Payout ratio – Adjusted funds from operations	**100.0%**	104.3%	82.8%	92.3%	92.3%	85.7%	75.0%	88.9%
Weighted average number of units as at quarter-end (in thousands)								
Basic	**61,567**	60,738	60,727	60,715	60,705	60,696	60,709	60,713
Diluted	**70,145**	69,316	69,305	69,294	69,283	69,275	69,287	69,291
Balance sheets								
Total assets	**$2,750,019**	$2,837,293	$2,937,341	$2,955,425	$2,983,511	$2,991,809	$2,978,573	$2,982,860
Total debt	**$1,372,814**	$1,355,008	$1,352,545	$1,347,772	$1,351,807	$1,344,542	$1,349,724	$1,338,492
Total equity	**$1,319,042**	$1,420,423	$1,537,468	$1,555,501	$1,563,684	$1,582,826	$1,580,414	$1,588,258
Gross leasable area as at quarter-end (in thousands of square feet) [1]								
Retail	**4,652**	4,716	4,778	4,752	4,749	4,761	4,629	4,641
Office	**3,240**	3,240	3,240	3,240	3,240	3,240	3,240	3,240
Industrial	**292**	292	292	292	534	534	534	534
Total	**8,184**	8,248	8,310	8,284	8,523	8,535	8,403	8,415
Occupancy as at quarter-end (%) [2]								
Retail	**94.5%**	94.2%	95.1%	94.6%	94.2%	94.0%	94.7%	94.0%
Office	**90.6%**	90.8%	91.6%	91.7%	91.7%	91.8%	92.9%	93.2%
Industrial	**94.9%**	96.5%	90.7%	90.3%	90.3%	88.5%	91.7%	97.7%
Total	**92.9%**	92.9%	93.5%	93.3%	93.0%	92.7%	93.8%	94.0%

1. Excludes equity-accounted investment.
2. Excludes properties held for sale, area either held for, or under, development and equity-accounted investment.
3. The Trust uses normalized productive capacity maintenance expenditures to calculate adjusted funds from operations.

PART X

PROPERTY LISTING

RETAIL PROPERTIES

Property	City	Province	Ownership Interest (%)	Gross Area (SF)	Ownership Area (SF)
Burquitlam Plaza	Coquitlam	BC	100	68,000	68,000
Pine Centre Mall	Prince George	BC	100	446,500	446,500
Shelbourne Plaza	Victoria	BC	100	57,000	57,000
Airdrie Co-op Centre	Airdrie	AB	100	70,000	70,000
Airdrie RONA Centre	Airdrie	AB	100	44,000	44,000
Heritage Towne Centre	Calgary	AB	100	131,000	131,000
Prairie Mall	Grande Prairie	AB	50	263,000	131,500
Parkland Mall	Red Deer	AB	100	444,500	444,500
The Centre	Saskatoon	SK	100	497,500	497,500
Shoppers Mall	Brandon	MB	100	361,000	361,000
Charleswood Centre	Winnipeg	MB	100	123,000	123,000
Southdale Centre	Winnipeg	MB	100	175,500	175,500
Aurora Centre	Aurora	ON	100	304,000	304,000
Cambridge Centre	Cambridge	ON	100	650,000	650,000
Market Square	Kanata	ON	100	68,000	68,000
Wonderland Corners	London	ON	100	46,000	46,000
Kingsbury Centre	Mississauga	ON	100	70,000	70,000
Hampton Park Plaza	Ottawa	ON	100	102,000	102,000
Home Base	Ottawa	ON	100	10,000	10,000
St. Laurent	Ottawa	ON	100	797,500	797,500
Woodbridge Square	Vaughan	ON	50	112,000	56,000
Total Retail (21)				**4,840,500**	**4,653,000**

OFFICE PROPERTIES

Property	City	Province	Ownership Interest (%)	Gross Area (SF)	Ownership Area (SF)
111 Dunsmuir	Vancouver	BC	100	222,000	222,000
Chancery Place	Vancouver	BC	100	142,500	142,500
Seymour Place	Victoria	BC	100	235,500	235,500
505 3rd Street SW	Calgary	AB	50	142,000	71,000
7315 8th Street NE	Calgary	AB	100	19,500	19,500
Centre 810	Calgary	AB	100	77,500	77,500
Citadel West	Calgary	AB	100	78,500	78,500
Deerport Centre	Calgary	AB	100	48,500	48,500
Duncan Building	Calgary	AB	100	81,000	81,000
National Bank Building	Calgary	AB	100	43,500	43,500
207 and 215 9th Avenue SW	Calgary	AB	100	636,500	636,500
Petroleum Plaza	Edmonton	AB	50	304,000	152,000
Scotia Place	Edmonton	AB	20	565,000	113,000
301 Laurier Avenue	Ottawa	ON	50	26,000	13,000
525 Coventry	Ottawa	ON	100	42,500	42,500
Green Valley Office Park	Ottawa	ON	100	123,000	123,000
Heritage Place	Ottawa	ON	50	216,000	108,000
St. Laurent Business Centre	Ottawa	ON	100	88,500	88,500
Standard Life	Ottawa	ON	50	378,000	189,000
Time Square	Ottawa	ON	100	111,000	111,000
200 Yorkland	Toronto	ON	100	150,500	150,500
77 Bloor Street West	Toronto	ON	50	396,000	198,000
Place Innovation	Saint-Laurent	QC	50	896,000	448,000
Total Office (23)				**5,023,500**	**3,392,500**

INDUSTRIAL PROPERTIES

Property	City	Province	Ownership Interest (%)	Gross Area (SF)	Ownership Area (SF)
1875 Leslie	Toronto	ON	100	52,000	52,000
2041-2151 McCowan	Toronto	ON	100	197,000	197,000
279 Yorkland	Toronto	ON	100	18,000	18,000
285 Yorkland	Toronto	ON	100	25,000	25,000
Total Industrial (4)				**292,000**	**292,000**

TABLE OF CONTENTS

BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	June 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Real estate properties	3	**$2,672,872**	$2,892,103
Right-of-use asset	4	**283**	324
Equity-accounted investment	5	**22,740**	23,705
		2,695,895	2,916,132
Current assets			
Amounts receivable	6	**29,556**	14,314
Prepaid expenses and other		**11,511**	1,112
Cash		**6,257**	5,783
Real estate properties held for sale	22	**6,800**	—
		54,124	21,209
Total assets		**$2,750,019**	$2,937,341
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	8	**$798,241**	$902,708
Convertible debentures	9	**171,797**	170,753
Lease liabilities	10	**10,928**	10,993
Accounts payable and accrued liabilities		**5,428**	4,550
		986,394	1,089,004
Current liabilities			
Mortgages payable	8	**252,126**	165,640
Lease liabilities	10	**128**	123
Accounts payable and accrued liabilities		**56,290**	47,448
Morguard loan payable	15(b)	**51,000**	32,500
Bank indebtedness	11	**85,039**	65,158
		444,583	310,869
Total liabilities		**1,430,977**	1,399,873
Unitholders' equity		**1,319,042**	1,537,468
		$2,750,019	$2,937,341
Commitments and contingencies	18		

See accompanying notes to the condensed consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Chairman of the Board of Trustees

(Signed) "Bart S. Munn"

Bart S. Munn,
Trustee

STATEMENTS OF (LOSS)/INCOME AND COMPREHENSIVE (LOSS)/INCOME

In thousands of Canadian dollars, except per unit amounts

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenue from real estate properties	12	**$59,300**	$67,008	**$125,673**	$137,462
Property operating costs					
Property operating expenses	13(a)	**(18,626)**	(16,155)	**(35,377)**	(33,518)
Property taxes		**(11,613)**	(11,688)	**(24,164)**	(24,663)
Property management fees		**(1,861)**	(2,208)	**(4,104)**	(4,464)
		27,200	36,957	**62,028**	74,817
Interest expense	14	**(14,015)**	(14,663)	**(28,587)**	(29,071)
General and administrative	13(b)	**(850)**	(1,146)	**(1,930)**	(2,323)
Amortization expense		**(21)**	(20)	**(41)**	(41)
Other income		**—**	2	**—**	43
Fair value losses on real estate properties	3	**(111,430)**	(24,602)	**(232,547)**	(30,282)
Net income/(loss) from equity-accounted investment	5	**302**	(1,229)	**(292)**	(929)
Net (loss)/income and comprehensive (loss)/income		**($98,814)**	($4,701)	**($201,369)**	$12,214
NET (LOSS)/INCOME PER UNIT	16(d)				
Basic		**($1.60)**	($0.08)	**($3.29)**	$0.20
Diluted		**($1.60)**	($0.08)	**($3.29)**	$0.20

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF UNITHOLDERS' EQUITY

In thousands of Canadian dollars, except number of units

	Number of Units	Issue of Units	Retained Earnings	Equity Component of Convertible Debentures	Contributed Surplus	Total Unitholders' Equity
Unitholders' equity, January 1, 2019	60,694,053	$612,183	$961,773	$4,594	$1,864	$1,580,414
Net income	—	—	12,214	—	—	12,214
Distributions to unitholders	—	—	(28,944)	—	—	(28,944)
Issue of units – DRIP [1]	15,605	192	(192)	—	—	—
Unitholders' equity, June 30, 2019	60,709,658	612,375	944,851	4,594	1,864	1,563,684
Net income	—	—	2,626	—	—	2,626
Distributions to unitholders	—	—	(28,842)	—	—	(28,842)
Issue of units – DRIP [1]	25,881	305	(305)	—	—	—
Unitholders' equity, December 31, 2019	60,735,539	612,680	918,330	4,594	1,864	1,537,468
Net loss	**—**	**—**	**(201,369)**	**—**	**—**	**(201,369)**
Distributions to unitholders	**—**	**—**	**(17,057)**	**—**	**—**	**(17,057)**
Issue of units – DRIP [1]	**1,412,524**	**7,404**	**(7,404)**	**—**	**—**	**—**
Unitholders' equity, June 30, 2020	**62,148,063**	**$620,084**	**$692,500**	**$4,594**	**$1,864**	**$1,319,042**

1. Distribution Reinvestment Plan ("DRIP").

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
OPERATING ACTIVITIES					
Net (loss)/income		**($98,814)**	($4,701)	**($201,369)**	$12,214
Add items not affecting cash	17(a)	**111,986**	26,668	**234,648**	32,726
Distributions from equity-accounted investment, net	5	**218**	518	**673**	1,150
Additions to tenant incentives and leasing commissions		**(617)**	(850)	**(1,307)**	(1,546)
Net change in non-cash operating assets and liabilities	17(b)	**(19,367)**	(1,228)	**(18,421)**	(10,773)
Cash (used in)/provided by operating activities		**(6,594)**	20,407	**14,224**	33,771
FINANCING ACTIVITIES					
Proceeds from new mortgages		**—**	—	**—**	11,253
Financing costs on new mortgages		**280**	—	**280**	(81)
Repayment of mortgages					
Repayments on maturity		**—**	—	**—**	(16,253)
Principal instalment repayments		**(9,326)**	(8,142)	**(18,560)**	(16,596)
Payment of lease liabilities, net		**(30)**	(29)	**(60)**	(57)
Proceeds from bank indebtedness, net	11	**11,407**	38,165	**19,881**	2,698
Decrease in Morguard loan receivable	15(b)	**—**	—	**—**	10,000
Proceeds from Morguard loan payable	15(b)	**15,500**	8,000	**38,500**	51,500
Repayment of Morguard loan payable	15(b)	**—**	(31,000)	**(20,000)**	(31,000)
Distributions to unitholders		**(4,927)**	(14,441)	**(14,557)**	(24,088)
Cash provided by/(used in) financing activities		**12,904**	(7,447)	**5,484**	(12,624)
INVESTING ACTIVITIES					
Capital expenditures on real estate properties		**(1,422)**	(4,313)	**(4,609)**	(6,543)
Expenditures on properties under development		**(5,794)**	(4,728)	**(14,625)**	(10,569)
Cash used in investing activities		**(7,216)**	(9,041)	**(19,234)**	(17,112)
Net change in cash		**(906)**	3,919	**474**	4,035
Cash, beginning of period		**7,163**	10,768	**5,783**	10,652
Cash, end of period		**$6,257**	$14,687	**$6,257**	$14,687

See accompanying notes to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and six months ended June 30, 2020 and 2019

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

NOTE 1

NATURE AND FORMATION OF THE TRUST

Morguard Real Estate Investment Trust (the "Trust") is a "closed-end" real estate investment trust governed pursuant to an amended and restated declaration of trust dated May 5, 2015 ("the Declaration of Trust"), under, and governed by, the laws of the Province of Ontario. The Trust commenced active operations on October 14, 1997. The Trust units trade on the Toronto Stock Exchange ("TSX") under the symbol "MRT.UN". The Trust owns a diverse portfolio of retail, office and industrial properties located in six Canadian provinces. The Trust's head office is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3.

The Trust has a property management agreement with Morguard Investments Limited ("MIL"), a subsidiary of Morguard Corporation ("Morguard"). Morguard is the parent company of the Trust, owning 59.38% of the outstanding units as at June 30, 2020. Morguard is a real estate company that owns a diversified portfolio of multi-suite residential, retail, hotel, office and industrial properties. Morguard also provides advisory and management services to institutional and other investors.

NOTE 2

STATEMENT OF COMPLIANCE, SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

These condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual consolidated financial statements and should be read in conjunction with the most recent annual audited consolidated financial statements.

The condensed consolidated financial statements were approved and authorized for issue by the Trustees on July 29, 2020.

Prior to the end of the first quarter and continuing into the second quarter, there was a global outbreak of a new strain of Coronavirus ("COVID-19") which prompted certain responses from Canadian and global government authorities. Such responses, have included mandatory temporary closure of, or imposed limitations on, the operations of certain non-essential properties and businesses including office properties and retail malls and associated businesses which operate within these properties such as retailers and restaurants. In addition, shelter-in-place mandates and severe travel restrictions have had a significant adverse impact on consumer spending and demand in the near term. These negative economic indicators, restrictions and closures have created significant estimation uncertainty in the determination of the fair value of the Trust's real estate properties as at June 30, 2020. Specifically, while discount and capitalization rates are inherently uncertain, there has been an absence of recently observed market transactions to support changes in such rates which is a key input into the determination of fair value. In addition, the Trust has had to make assumptions with respect to the length and severity of these restrictions and closures as well as the recovery period in estimating the impact and timing of future cash flows generated from real estate properties and used in the discounted cash flow model used to determine fair value. As a result of this material estimation uncertainty there is a risk that the assumptions used to determine fair value as at June 30, 2020, may result in a material adjustment to the fair value of real estate properties in future reporting periods as more information becomes available.

Rent receivables are recorded initially at fair value. In accordance with IFRS, the Trust assesses on a forward-looking basis the expected credit losses associated with its rent receivables, and an appropriate allowance is recognized.

In determining the expected credit losses the Trust takes into account the payment history and future expectations of likely default events (i.e. asking for rental concessions, or rent relief)) based on actual or expected insolvency filings, and potential abatements to be granted by the landlord under CECRA. These assessments are made on a tenant-by-tenant basis.

The Trust's assessment of expected credit losses is inherently subjective due to the forward-looking nature of the assessments. As a result, this process is subject to a degree of uncertainty caused by COVID-19. Based on its review, the Trust recorded bad debt expense of $5.5 million in property operating expenses during the three months ended June 30, 2020, with a corresponding amount recorded as an expected credit loss against its rent receivables (Note 6).

NOTE 3

REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at	June 30, 2020	December 31, 2019
Income producing properties	**$2,613,793**	$2,834,394
Properties under development	**22,929**	18,909
Held for development	**36,150**	38,800
	$2,672,872	$2,892,103

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

	Income Producing Properties	Properties Under Development	Held for Development	Total Real Estate Properties
Balance as at December 31, 2018	$2,858,255	$22,887	$34,450	$2,915,592
Adoption of IFRS 16	10,825	—	—	10,825
Additions:				
Capital expenditures/capitalized costs	12,928	33,818	—	46,746
Tenant improvements, tenant incentives and commissions	9,542	—	—	9,542
Transfers	37,796	(37,796)	—	—
Disposition	(15,914)	—	—	(15,914)
Fair value (losses)/gains	(78,200)	—	4,350	(73,850)
Other changes	(838)	—	—	(838)
Balance as at December 31, 2019	**2,834,394**	**18,909**	**38,800**	**2,892,103**
Additions:				
Capital expenditures/capitalized costs	1,934	14,625	—	16,559
Tenant improvements, tenant incentives and commissions	3,982	—	—	3,982
Transfers	10,605	(10,605)	—	—
Reclassification to properties held for sale	(1,608)	—	(5,192)	(6,800)
Fair value (losses)/gains	(235,089)	—	2,542	(232,547)
Other changes	(425)	—	—	(425)
Balance as at June 30, 2020	**$2,613,793**	**$22,929**	**$36,150**	**$2,672,872**

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

Morguard's subsidiary has a valuation team that 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 and undertake ongoing professional development. Morguard's appraisal division is responsible for determining the fair value of investment properties every quarter. The team reports to a senior executive, and the internal valuation team's valuation processes and results are reviewed by senior management at least once every quarter, in line with the Trust's quarterly reporting dates.

Generally, the Trust's real estate properties are appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization approach and a direct comparison approach. The primary method of valuation used by the Trust is discounted cash flow analysis. This approach involves determining the fair value of each income producing property based on, 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 outflows pertaining to the respective leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years and including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income.

Using the direct capitalization income approach to corroborate the discounted cash flow method, the properties were valued using capitalization rates in the range of 4.3% to 8.5% applied to a stabilized net operating income (December 31, 2019 – 4.3% to 8.5%), resulting in an overall weighted average capitalization rate of 6.60% (December 31, 2019 – 6.38%). The total stabilized annual net operating income as at June 30, 2020, was $159,821 (December 31, 2019 – $171,345).

The stabilized capitalization rates by business segments are set out in the following table:

	June 30, 2020					December 31, 2019				
	Stabilized Occupancy		**Capitalization Rates**			Stabilized Occupancy		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Retail	**100.0%**	**90.0%**	**7.3%**	**5.3%**	**6.9%**	100.0%	90.0%	7.3%	5.3%	6.5%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.3%**	100.0%	90.0%	8.5%	4.3%	6.3%
Industrial	**100.0%**	**95.0%**	**5.5%**	**5.3%**	**5.4%**	100.0%	95.0%	5.5%	5.3%	5.4%

The table below provides further details of the discount rates and terminal cap rates used in the discounted cash flow method by business segments:

	June 30, 2020			December 31, 2019		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
RETAIL						
Discount rate	**8.0 %**	**6.0 %**	**7.1 %**	7.8 %	6.0 %	6.9 %
Terminal cap rate	**7.0 %**	**5.3 %**	**6.2 %**	7.0 %	5.3 %	6.0 %
OFFICE						
Discount rate	**7.8 %**	**5.3 %**	**6.3 %**	7.8 %	5.3 %	6.3 %
Terminal cap rate	**7.3 %**	**4.3 %**	**5.5 %**	7.3 %	4.3 %	5.5 %
INDUSTRIAL						
Discount rate	**6.5 %**	**6.0 %**	**6.2 %**	6.5 %	6.0 %	6.2 %
Terminal cap rate	**5.8 %**	**5.5 %**	**5.5 %**	5.8 %	5.5 %	5.5 %

Excluded from the above analysis is a retail property located in British Columbia where the highest and best use is a redevelopment to mixed residential and commercial use. As at June 30, 2020, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent land sales with comparable redevelopment potential.

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 to the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points, the value of the income producing properties as at June 30, 2020, would decrease by $88,876 or increase by $95,922, respectively.

The sensitivity of the fair values of the Trust's income producing properties is set out in the table below:

For the six months ended	June 30, 2020	
Change in capitalization rate	**0.25%**	**(0.25%)**
Retail	**($46,756)**	**$50,297**
Office	**(40,470)**	**43,816**
Industrial	**(1,650)**	**1,809**
	($88,876)	**$95,922**

NOTE 4

RIGHT-OF-USE ASSET

The following table presents the change in the balance of the Trust's right-of-use (head office lease) asset:

As at	June 30, 2020	December 31, 2019
Balance, beginning of period	**$324**	$—
Adoption of IFRS 16	**—**	407
Amortization expense	**(41)**	(83)
Balance, end of period	**$283**	$324

NOTE 5

EQUITY-ACCOUNTED INVESTMENT

On December 22, 2011, the Trust and a major Canadian pension fund each acquired a 50% interest in a limited partnership that owns and operates a 304,000 square foot Class A office complex located in downtown Edmonton, Alberta, in which the Trust has a total original net investment of $28,008. The Trust has joint control over the limited partnership and accounts for its investment using the equity method.

As at	June 30, 2020	December 31, 2019
Balance, beginning of period	**$23,705**	$24,746
Equity (loss)/income	**(292)**	1,044
Distributions to partners	**(1,330)**	(2,755)
Contributions from partners	**657**	670
Balance, end of period	**$22,740**	$23,705

The following details the Trust's share of the limited partnership's aggregated assets, liabilities and results of operations accounted for under the equity method:

As at	June 30, 2020	December 31, 2019
Real estate property	**$47,350**	$49,405
Current assets	**568**	651
Total assets	**47,918**	50,056
Non-current liabilities	**(4)**	(7)
Current liabilities	**(25,174)**	(26,344)
Net equity	**$22,740**	$23,705

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue from real estate property	**$1,570**	$1,663	**$3,198**	$3,204
Property operating expenses	**(483)**	(536)	**(1,060)**	(1,028)
Net operating income	**1,087**	1,127	**2,138**	2,176
Interest and other	**(240)**	(249)	**(479)**	(500)
Fair value losses on real estate property	**(545)**	(2,107)	**(1,951)**	(2,605)
Net income/(loss)	**$302**	($1,229)	**($292)**	($929)

The real estate property included above in the Trust's equity-accounted investment is appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization approach and a direct comparison approach. As at June 30, 2020, the property was valued using a discount rate of 7.3% (December 31, 2019 – 7.3%), a terminal cap rate of 6.3% (December 31, 2019 – 6.3%) and a stabilized cap rate of 5.8% (December 31, 2019 – 6.0%). The stabilized annual net operating income as at June 30, 2020, was $3,148 (December 31, 2019 – $3,096).

NOTE 6
AMOUNTS RECEIVABLE

Amounts receivable consist of the following:

As at	June 30, 2020	December 31, 2019
Tenant receivables	**$26,065**	$1,741
Unbilled other tenant receivables	**932**	3,461
Receivables from related parties	**1,715**	204
Other	**7,122**	9,669
Allowance for expected credit loss	**(6,278)**	(761)
	29,556	14,314

Allowance for expected credit loss

The Trust records the expected credit loss to comply with IFRS 9’s simplified approach for amounts receivable where its expected credit loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit loss ("ECL").

Canada Emergency Commercial Rent Assistance

The Government of Canada has partnered with the provincial governments to deliver the CECRA program. The program is intended to provide relief for small business tenants of commercial landlords who are experiencing financial difficulties during the COVID-19 Pandemic.

Over the course of the program, property owners that participate in the program will reduce rent by at least 75% for the months of April, May, June, and July 2020 for their small business tenants that qualify. The Government of Canada, via a forgivable loan, will cover 50% of the rent, with the tenant paying up to 25% and the landlord forgiving at least 25%.The interest-free loans will be forgiven on December 31, 2020 if the property owner agrees to terms, including reducing the small business tenants' rent by at least 75% under a rent reduction agreement. To ensure loan forgiveness, the property owner must follow the terms and conditions of the loan, including complying with the rent reduction agreement. The Trust is currently finalizing the applications under the CECRA program.

As at June 30, 2020, the Trust estimated the amount of rent to be forgiven and recorded an amount to the bad debt provision for the estimated landlord's portion. The estimated cost to the Trust of this program is $1.4 million for the three months ended June 30, 2020.

The Trust applied judgement that best reflects the economic substance of the assistance to determine that a lease modification relating to the CECRA program does not represent a substantial lease modification and has been remeasured by the application of IFRS 9. As such, the change in future cash flows is a remeasurement event resulting in a gain or loss within profit or loss.

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The 50% portion of the tenant receivable that has been impaired is offset with the government grant and have both been presented in the tenant receivables.

NOTE 7

CO-OWNERSHIP INTERESTS

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

			Trust's Ownership Share	
Jointly Controlled Operations	**Location**	**Property Type**	**2020**	2019
505 Third Street	Calgary, AB	Office	**50%**	50%
Scotia Place	Edmonton, AB	Office	**20%**	20%
Prairie Mall	Grande Prairie, AB	Retail	**50%**	50%
Heritage Place	Ottawa, ON	Office	**50%**	50%
Standard Life Centre	Ottawa, ON	Office	**50%**	50%
77 Bloor	Toronto, ON	Office	**50%**	50%
Woodbridge Square	Woodbridge, ON	Retail	**50%**	50%
Place Innovation	Saint-Laurent, QC	Office	**50%**	50%
REAL ESTATE PROPERTIES SOLD (SEE NOTE 3)				
825 Des Érables [1]	Salaberry-de-Valleyfield, QC	Industrial	**50%**	50%

1. Sold July 31, 2019.

The following amounts, included in these condensed consolidated financial statements, represent the Trust's proportionate share of the assets and liabilities of its co-ownerships as at June 30, 2020 and December 31, 2019, and the results of operations for the three and six months ended June 30, 2020 and 2019:

As at	June 30, 2020	December 31, 2019
Assets	**$502,373**	$520,359
Liabilities	**$165,234**	$164,901

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Revenue	**$11,929**	$13,292	**$24,696**	$26,989
Expenses	**(8,226)**	(8,023)	**(16,216)**	(16,239)
Income before fair value adjustments	**3,703**	5,269	**8,480**	10,750
Fair value (losses)/gains on real estate properties	**(15,150)**	2,653	**(25,876)**	(317)
Net (loss)/income	**($11,447)**	$7,922	**($17,396)**	$10,433

NOTE 8

MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	June 30, 2020	December 31, 2019
Mortgages payable before deferred financing costs	**$1,052,278**	$1,070,838
Deferred financing costs	**(1,911)**	(2,490)
Mortgages payable	**$1,050,367**	$1,068,348
Mortgages payable – non-current	**$798,241**	$902,708
Mortgages payable – current	**252,126**	165,640
Mortgages payable	**$1,050,367**	$1,068,348
Range of interest rates	**2.7% to 5.5%**	2.7% to 5.5%
Weighted average term to maturity (years)	**3.2**	3.7

The aggregate principal repayments and balances maturing on the mortgages payable as at June 30, 2020, together with the weighted average contractual rate on debt maturing in the year indicated, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Rate on Balance Maturing
2020 (remainder of year)	$17,880	$113,951	$131,831	4.6 %
2021	30,516	169,373	199,889	4.1 %
2022	26,989	171,560	198,549	3.8 %
2023	16,821	208,194	225,015	3.7 %
2024	8,557	136,860	145,417	4.4 %
Thereafter	35,793	115,784	151,577	4.0 %
	$136,556	**$915,722**	**$1,052,278**	**4.1 %**

Substantially all of the Trust's rental properties and related rental revenue have been pledged as collateral for the mortgages payable.

NOTE 9
CONVERTIBLE DEBENTURES
Debentures

On December 30, 2016, the Trust issued a $175,000 principal amount of 4.50% convertible unsecured subordinated debentures ("Convertible Debentures") maturing on December 31, 2021 (the "Maturity Date"). As at June 30, 2020, Morguard held a total of $60,000 principal amount of the Convertible Debentures (December 31, 2019 – $60,000).

Interest is payable semi-annually, not in advance, on June 30 and December 31 of each year.

The Convertible Debentures, with the exception of the value assigned to the holders' conversion option, have been recorded as debt on the balance sheets. The following table summarizes the allocation of the principal amount and related issue costs of the Convertible Debentures at the date of original issue. The portion of issue costs attributable to the liability of $4,991 was capitalized and will be amortized over the term to maturity, while the remaining amount of $139 was charged to equity.

	Liability	Equity	Principal Amount Issued
Transaction date – December 30, 2016	$170,267	$4,733	$175,000
Issue costs	(4,991)	(139)	(5,130)
	$165,276	**$4,594**	**$169,870**

Each Convertible Debenture is convertible into freely tradable units of the Trust at the option of the holder, exercisable at any time prior to the close of business on the last business day preceding the Maturity Date at a conversion price of $20.40 per unit, being a rate of approximately 49.0196 units per thousand principal amount of Convertible Debentures, subject to adjustment.

The Convertible Debentures payable consist of the following:

As at	June 30, 2020	December 31, 2019
Convertible debentures – liability	**$170,267**	$170,267
Convertible debentures – accretion	**3,174**	2,666
Convertible debentures before issue costs	**173,441**	172,933
Issue costs	**(1,644)**	(2,180)
Convertible debentures	**$171,797**	$170,753

Remaining interest and principal payments on the Convertible Debentures are as follows:

	Interest	Principal	Total
2020	$3,938	$—	$3,938
2021	7,875	175,000	182,875
	$11,813	**$175,000**	**$186,813**

Redemption Rights

Each Convertible Debenture is redeemable any time from January 1, 2020, to the close of business on December 31, 2020, in whole or in part, on at least 30 days' prior notice at a redemption price equal to par plus accrued and unpaid interest at the Trust's sole option, provided that the weighted average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which the notice of redemption is given is not less than 125% of the Conversion Price.

From January 1, 2021, to the close of business on December 31, 2021, the Convertible Debentures are redeemable, in whole or in part, at par plus accrued and unpaid interest at the Trust's sole option.

Payment Upon Redemption or Maturity
As a part of the above redemption options, or at maturity, the Trust may satisfy its obligation to repay the principal amounts of the Convertible Debentures, in whole or in part, by delivering units of the Trust. In the event that the Trust elects to satisfy its obligation to repay principal with units of the Trust, the number of units issued is obtained by dividing the principal amount of the Convertible Debentures by 95% of the weighted average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days prior to the date fixed for redemption or the Maturity Date, as applicable.

Interest Payment Election
The Trust may elect, subject to applicable regulatory approval, to issue and deliver units of the Trust to the Debenture Trustee in order to raise funds to pay interest on the Convertible Debentures, in which event the holders of the Convertible Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such units.

NOTE 10
LEASE LIABILITIES
The following table presents the change in the balance of the Trust's lease liabilities:

As at	June 30, 2020	December 31, 2019
Balance, beginning of period	**$11,116**	$—
Adoption of IFRS 16	**—**	11,232
Lease payments	**(406)**	(813)
Interest	**346**	697
Balance, end of period	**$11,056**	$11,116
Current	**$128**	$123
Non-current	**10,928**	10,993
	$11,056	$11,116
Weighted average borrowing rate	**6.2%**	6.3%

NOTE 11
BANK INDEBTEDNESS
The Trust has operating lines of credit totalling $110,000 (December 31, 2019 – $95,000), which renew annually and are secured by fixed charges on specific properties owned by the Trust.

As at June 30, 2020, the Trust had borrowed $85,039 (December 31, 2019 – $65,158) on its credit facilities and issued letters of credit in the amount of $1,267 (December 31, 2019 – $1,267) related to these facilities.

The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at June 30, 2020, and December 31, 2019, the Trust was in compliance with all covenants and undertakings. As the bank indebtedness is current and at prevailing market rates, the carrying value of the debt as at June 30, 2020, approximates fair value.

NOTE 12
REVENUE FROM REAL ESTATE PROPERTIES

Revenue from real estate properties consists of the following:

For the three months ended June 30, 2020	**Retail**	**Office**	**Industrial**	**Total**
Rental revenue	**$22,185**	**$16,932**	**$526**	**$39,643**
CAM recoveries	**3,693**	**5,761**	**213**	**9,667**
Property tax and insurance recoveries	**5,767**	**3,541**	**166**	**9,474**
Other ancillary revenue	**495**	**217**	**—**	**712**
Amortized rents	**22**	**(210)**	**(8)**	**(196)**
	$32,162	**$26,241**	**$897**	**$59,300**

For the three months ended June 30, 2019	Retail	Office	Industrial	Total
Rental revenue	$22,804	$18,197	$853	$41,854
CAM recoveries	6,030	7,612	184	13,826
Property tax and insurance recoveries	6,316	3,688	261	10,265
Other ancillary revenue	970	220	41	1,231
Amortized rents	(30)	(102)	(36)	(168)
	$36,090	$29,615	$1,303	$67,008

For the six months ended June 30, 2020	**Retail**	**Office**	**Industrial**	**Total**
Rental revenue	**$45,307**	**$34,440**	**$1,061**	**$80,808**
CAM recoveries	**9,679**	**13,241**	**416**	**23,336**
Property tax and insurance recoveries	**12,122**	**7,786**	**248**	**20,156**
Other ancillary revenue	**1,388**	**410**	**—**	**1,798**
Amortized rents	**27**	**(438)**	**(14)**	**(425)**
	$68,523	**$55,439**	**$1,711**	**$125,673**

For the six months ended June 30, 2019	Retail	Office	Industrial	Total
Rental revenue	$45,685	$36,266	$1,656	$83,607
CAM recoveries	13,361	15,641	391	29,393
Property tax and insurance recoveries	12,685	8,642	428	21,755
Other ancillary revenue	2,290	489	107	2,886
Amortized rents	(5)	(91)	(83)	(179)
	$74,016	$60,947	$2,499	$137,462

CAM recoveries and other ancillary revenue noted in the above table are considered to be a component of revenue from contracts with customers.

NOTE 13
EXPENSES
(a) Property Operating Expenses
Property operating expenses consist of the following:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Repairs and maintenance	**$4,597**	$6,827	**$12,156**	$15,056
Utilities	**3,275**	4,163	**7,336**	8,417
Bad debt expense	**5,535**	(6)	**5,821**	100
Other operating expenses	**5,219**	5,171	**10,064**	9,945
	$18,626	$16,155	**$35,377**	$33,518

(b) General and Administrative
General and administrative expenses consist of the following:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Trustees' fees and expenses	**$62**	$70	**$140**	$140
Professional and compliance fees	**317**	312	**729**	731
Payroll and other administrative expenses	**471**	764	**1,061**	1,452
	$850	$1,146	**$1,930**	$2,323

NOTE 14
INTEREST EXPENSE
The components of interest expense are as follows:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Mortgages payable	**$10,617**	$11,002	**$21,335**	$22,129
Amortization of deferred financing costs – mortgages	**116**	152	**299**	307
Convertible debentures	**1,963**	1,963	**3,905**	3,905
Accretion on convertible debentures, net	**255**	242	**508**	481
Amortization of deferred financing costs – convertible debentures	**270**	255	**536**	507
Lease liabilities	**173**	175	**346**	350
Bank indebtedness	**372**	763	**1,125**	1,116
Morguard loan payable and other	**411**	227	**858**	591
Capitalized interest	**(162)**	(116)	**(325)**	(315)
	$14,015	$14,663	**$28,587**	$29,071

NOTE 15
RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

Under the property management agreement, the Trust pays MIL fees for property management services, capital expenditure administration, information system support activities and risk management administration. Property management fees average approximately 3.3% of gross revenue from the income producing properties owned by the Trust. The management agreement is renewed annually to ensure fees paid reflect fair value for the services provided. Under the leasing services arrangement, the Trust may, at its option, use MIL for leasing services. Leasing fees range from 2% to 6% of the total minimum rent of new leases. Fees for the renewal of a lease are half of the fees for a new lease. Leasing services include lease documentation.

The Trust has employed the services of MIL for both the acquisition and disposition of properties on a case-by-case basis. Fees are generally based on the sale price of the properties and are capitalized in the case of an asset acquisition. MIL is a tenant at three of the Trust's properties. The Trust has employed the services of MIL for the appraisal of its real estate properties as required for IFRS reporting purposes. Fees are generally based on the size and complexity of each property and are expensed as part of the Trust's professional and compliance fees.

During the year, the Trust incurred/(earned) the following:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Property management fees [1]	**$1,889**	$2,242	**$4,158**	$4,529
Appraisal/valuation fees	**88**	90	**177**	180
Information services	**55**	55	**110**	110
Leasing fees	**260**	760	**824**	1,176
Project administration fees	**55**	56	**135**	131
Project management fees	**101**	85	**173**	177
Risk management fees	**94**	94	**187**	180
Internal audit fees	**36**	34	**72**	68
Off-site administrative charges	**464**	451	**925**	903
Rental revenue	**(51)**	(50)	**(102)**	(101)
	$2,991	$3,817	**$6,659**	$7,353

1. Includes property management fees on equity-accounted investment.

The following amounts relating to MIL are included in the balance sheets:

As at	**June 30, 2020**	December 31, 2019
Amounts (receivable from)/payable to MIL, net	**($654)**	$1,527

(b) Revolving Loan with Morguard

The Trust has a revolving loan agreement with Morguard that provides for borrowings or advances of up to $75,000 (December 31, 2019 – $50,000), which is interest bearing at the lender's borrowing rate and due on demand subject to available funds.

Morguard Loan Payable

During the six months ended June 30, 2020, a gross amount of $38,500 was advanced from Morguard, and a gross amount of $20,000 was repaid to Morguard. As at June 30, 2020, $51,000 remains payable to Morguard (December 31, 2019 – $32,500). For the three months ended June 30, 2020, the Trust incurred interest expense in the amount of $369 (2019 – $227) at an average interest rate of 3.80% (2019 – 4.98%). For the six months ended June 30, 2020, the Trust incurred interest expense in the amount of $778 (2019 – $591) at an average interest rate of 4.14% (2019 – 4.62%).

Morguard Loan Receivable

During the six months ended June 30, 2020, there were no advances or repayments, and as at June 30, 2020, there is no loan receivable from Morguard (December 31, 2019 – $nil). For the three months ended June 30, 2020, and 2019, the Trust did not earn interest income on loans receivable from Morguard. For the six months ended June 30, 2020, the Trust did not earn interest income on loans receivable from Morguard (2019 – $33), at an average interest rate of n/a (2019 – 5.05%). The interest income earned from Morguard is included with other income on the statements of (loss)/income and comprehensive (loss)/income.

(c) Sublease with Morguard (Excluding MIL)

The Trust subleases office space from Morguard. For the three months ended June 30, 2020, the Trust incurred rent expense in the amount of $60 (2019 – $61). For the six months ended June 30, 2020, the Trust incurred rent expense in the amount of $116 (2019 – $116).

(d) Amounts Receivable from and Accounts Payable to Morguard (Excluding MIL)

Other than the revolving loan, the following additional amounts relating to Morguard are included in the balance sheets:

As at	June 30, 2020	December 31, 2019
Amounts receivable	**$4**	$63
Accounts payable and accrued liabilities	**$142**	$124

(e) Rental Revenue from Morguard (Excluding MIL)

Morguard is a tenant in one of the Trust's properties. For the three months ended June 30, 2020, the Trust earned rental revenue in the amount of $28 (2019 – $27). For the six months ended June 30, 2020, the Trust earned rental revenue in the amount of $56 (2019 – $54).

NOTE 16
UNITHOLDERS' EQUITY
(a) Units Outstanding

The Trust is authorized to issue an unlimited number of units. These units have no par value. The following table summarizes the changes in units from January 1, 2019 to June 30, 2020:

As at	Six months ended June 30, 2020	Year ended December 31, 2019
Balance, beginning of period	**60,735,539**	60,694,053
Distribution Reinvestment Plan – Morguard	**1,381,888**	—
Distribution Reinvestment Plan – other unitholders	**30,636**	41,486
Balance, end of period	**62,148,063**	60,735,539

Total distributions recorded during the six months ended June 30, 2020, amounted to $24,461 or $0.40 per unit (2019 – $29,136 or $0.48 per unit). Included in this amount is a distribution declared on June 15, 2020, in the amount of $0.04 per unit for the month of June 2020, payable to unitholders on July 15, 2020. On July 15, 2020, the Trust declared a distribution of $0.04 per unit payable on August 14, 2020.

(b) Normal Course Issuer Bid

On February 5, 2020, the Trust announced that the TSX had accepted notice filed by the Trust of its intention to make a normal course issuer bid. The notice provided that during the 12-month period commencing February 7, 2020, and ending February 6, 2021, the Trust may purchase for cancellation on the TSX up to 3,036,776 units in total, being approximately 5% of the outstanding units. Additionally, the Trust may purchase for cancellation up to $11,496 principal amount of the Convertible Debentures due on the Maturity Date, 10% of the public float of outstanding Convertible Debentures. The price that the Trust would pay for any such units or debentures would be the market price at the time of acquisition.

During the year ended December 31, 2019, the Trust did not purchase any units for cancellation. During the six months ended June 30, 2020, the Trust did not purchase any units for cancellation.

(c) Distribution Reinvestment Plan

Under the Trust's Distribution Reinvestment Plan, unitholders can elect to reinvest cash distributions into additional units at a weighted average trading price of the units on the TSX for the 20 trading days immediately preceding the applicable date of distribution. During the six months ended June 30, 2020, the Trust issued 1,412,524 units under the DRIP (2019 – 15,605 units).

(d) Net (Loss)/Income Per Unit

The following table sets forth the computation of basic and diluted net (loss)/income per unit:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Net (loss)/income – basic	**($98,814)**	($4,701)	**($201,369)**	$12,214
Net (loss)/income – diluted	**($98,814)**	($4,701)	**($201,369)**	$12,214
Weighted average number of units outstanding – basic	**61,567**	60,705	**61,152**	60,700
Weighted average number of units outstanding – diluted	**61,567**	60,705	**61,152**	60,700
Net (loss)/income per unit – basic	**($1.60)**	($0.08)	**($3.29)**	$0.20
Net (loss)/income per unit – diluted	**($1.60)**	($0.08)	**($3.29)**	$0.20

To calculate net (loss)/income – diluted, interest, accretion and the amortization of financing costs on convertible debentures outstanding that were expensed during the year are added back to net (loss)/income – basic. The weighted average number of units outstanding – diluted is calculated as if all convertible debentures outstanding as at June 30, 2020, and 2019, had been converted into units of the Trust at the beginning of the year. The calculation of net (loss)/income per unit – diluted excludes the impact of the convertible debentures for the three and six months ended June 30, 2020, and 2019 as their inclusion would be anti-dilutive.

NOTE 17

STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Fair value losses on real estate properties	**$111,430**	$24,602	**$232,547**	$30,282
Net (income)/loss from equity-accounted investment	**(302)**	1,229	**292**	929
Amortized stepped rent	**(12)**	72	**(7)**	77
Amortized free rent	**130**	21	**281**	(54)
Amortization of deferred financing costs – mortgages	**116**	152	**299**	307
Amortization of tenant incentives	**78**	75	**151**	156
Amortization of right-of-use asset	**21**	20	**41**	41
Amortization of deferred financing costs – convertible debentures	**270**	255	**536**	507
Accretion on convertible debentures	**255**	242	**508**	481
	$111,986	$26,668	**$234,648**	$32,726

(b) Net Change in Non-Cash Operating Assets and Liabilities

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Amounts receivable	**($14,665)**	$375	**($15,242)**	($448)
Prepaid expenses and other	**(2,697)**	(4,804)	**(10,399)**	(13,146)
Accounts payable and accrued liabilities	**(2,005)**	3,201	**7,220**	2,821
	($19,367)	($1,228)	**($18,421)**	($10,773)

Other supplemental cash flow information consists of the following:				
Interest paid	**$15,448**	$16,126	**$27,585**	$28,223
Issue of units – DRIP	**$7,316**	$128	**$7,404**	$192

NOTE 18

COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Trust has entered into various agreements relating to capital expenditures for its properties. These expenditures include development of new space, redevelopment or retrofit of existing space, and other capital expenditures. Should all conditions be met, as at June 30, 2020, committed capital expenditures in the next 12 months are estimated at $5,269.

The Trust has various other contractual obligations in the normal course of operations. These contracts can generally be cancelled with 30 days' notice.

(b) Contingencies

The Trust is liable contingently 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 outcome of these matters cannot be predicted with certainty, in the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the financial position or results of operations of the Trust. Any expected settlement of claims in excess of amounts recorded will be charged to operations as and when such determination is made.

NOTE 19
MANAGEMENT OF CAPITAL

The Trust defines capital that it manages as the aggregate of its unitholders' equity and interest-bearing debt less cash and interest-bearing receivables. The Trust's objective when managing capital is to ensure that the Trust will continue as a going concern so that it can sustain daily operations and provide adequate returns to its unitholders.

The Trust 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 Trust mitigates these risks by its continued efforts to stagger the maturity profile of its long-term debt, to enhance the value of its real estate properties and to maintain high occupancy levels. The Trust 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 Trust is summarized below:

As at	Note	June 30, 2020	December 31, 2019
Mortgages payable	8	**$1,050,367**	$1,068,348
Convertible debentures	9	**171,797**	170,753
Bank indebtedness	11	**85,039**	65,158
Morguard loan payable	15(b)	**51,000**	32,500
Lease liabilities	10	**11,056**	11,116
Cash		**(6,257)**	(5,783)
Unitholders' equity		**1,319,042**	1,537,468
		$2,682,044	$2,879,560

The Declaration of Trust permits the Trust to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of all indebtedness of the Trust is not more than 60% of the gross book value of the Trust's total assets as defined in the Declaration of Trust. The Declaration of Trust also permits the Trust to incur floating-rate debt, provided that the total amount of all floating-rate debt of the Trust is not more than 15% of the gross book value of the Trust's total assets.

The Trust's debt ratios compared to its borrowing limits established in the Declaration of Trust are outlined in the table below:

As at	Borrowing Limits	June 30, 2020	December 31, 2019
Fixed-rate debt to gross book value of total assets	N/A	**44.8 %**	42.5 %
Floating-rate debt to gross book value of total assets	15 %	**4.9 %**	3.3 %
	60 %	**49.7 %**	45.8 %

As at June 30, 2020, the Trust met all externally imposed ratios and minimum equity requirements.

Mortgages Payable
All mortgages payable in place for the Trust are secured against the real property assets and, as a result, have been relieved from having restrictive financial covenant requirements.

Convertible Debentures
The Trust's unsecured subordinated convertible debentures have no restrictive covenants.

Bank Indebtedness
The Trust's loan agreements permit the Trust to incur indebtedness. The loan agreements are fixed amounts that renew annually and are secured by fixed charges on specific properties owned by the Trust.

NOTE 20

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Trust's financial assets and liabilities comprise cash, amounts receivable, accounts payable and accrued liabilities, bank indebtedness, Morguard loan payable, mortgages payable and convertible debentures. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows.

Fair Value of Financial Assets and Liabilities

The fair values of cash, amounts receivable, accounts payable and accrued liabilities, bank indebtedness and Morguard loan payable approximate their carrying values due to the short-term maturities of these instruments.

(a) Mortgages Payable

Mortgages payable are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are 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 Trust as at June 30, 2020.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using June 30, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at June 30, 2020, of the mortgages payable has been estimated at $1,090,721 (December 31, 2019 – $1,093,438) compared with the carrying value before deferred financing costs of $1,052,278 (December 31, 2019 – $1,070,838). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

(b) Convertible Debentures

The fair value of the Convertible Debentures is based on their market trading price (TSX: MRT.DB) (Level 1). The fair value as at June 30, 2020, of the Convertible Debentures has been estimated at $164,938 (December 31, 2019 – $177,188) compared with the carrying value before deferred financing costs of $173,441 (December 31, 2019 – $172,933).

(c) Fair Value Hierarchy of Real Estate Properties

The fair value hierarchy of income producing properties, properties under development and held for development measured at fair value in the balance sheets is as follows:

	June 30, 2020			December 31, 2019		
As at	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
ASSETS						
Income producing properties	**$—**	**$—**	**$2,613,793**	$—	$—	$2,834,394
Properties under development	**$—**	**$—**	**$22,929**	$—	$—	$18,909
Held for development	**$—**	**$—**	**$36,150**	$—	$—	$38,800

Risks Associated with Financial Assets and Liabilities

The Trust is exposed to financial risks arising from its financial assets and liabilities. The financial risks include interest rate risk, credit risk and liquidity risk. The Trust's overall risk management program focuses on establishing policies to identify and analyze the risks faced by the Trust, 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 Trust's activities. The Trust aims to develop a disciplined control environment in which all employees understand their roles and obligations.

NOTE 21
SEGMENTED INFORMATION

IFRS 8, "Operating Segments", requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision-makers for the purpose of allocating resources to the segment and assessing its performance. The Trust 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. As at June 30, 2020, the Trust has the following three reportable segments: retail, office and industrial.

Business Segments

For the three months ended June 30, 2020	**Retail**	**Office**	**Industrial**	**Total**
Revenue from real estate properties	**$32,162**	**$26,241**	**$897**	**$59,300**
Property operating expenses	**(11,282)**	**(7,091)**	**(253)**	**(18,626)**
Property taxes	**(7,285)**	**(4,127)**	**(201)**	**(11,613)**
Property management fees	**(970)**	**(860)**	**(31)**	**(1,861)**
Net operating income	**$12,625**	**$14,163**	**$412**	**$27,200**

For the three months ended June 30, 2019	**Retail**	**Office**	**Industrial**	**Total**
Revenue from real estate properties	$36,090	$29,615	$1,303	$67,008
Property operating expenses	(8,630)	(7,423)	(102)	(16,155)
Property taxes	(7,610)	(3,815)	(263)	(11,688)
Property management fees	(1,239)	(941)	(28)	(2,208)
Net operating income	$18,611	$17,436	$910	$36,957

For the three months ended June 30, 2020	**Retail**	**Office**	**Industrial**	**Total**
Additions to real estate properties	**$6,128**	**$1,698**	**$7**	**$7,833**
Fair value losses on real estate properties	**($83,430)**	**($26,652)**	**($1,348)**	**($111,430)**

For the three months ended June 30, 2019	**Retail**	**Office**	**Industrial**	**Total**
Additions to real estate properties	$6,599	$3,193	$99	$9,891
Fair value (losses)/gains on real estate properties	($32,018)	$8,183	($767)	($24,602)

For the six months ended June 30, 2020	**Retail**	**Office**	**Industrial**	**Total**
Revenue from real estate properties	**$68,523**	**$55,439**	**$1,711**	**$125,673**
Property operating expenses	**(20,196)**	**(14,717)**	**(464)**	**(35,377)**
Property taxes	**(15,189)**	**(8,687)**	**(288)**	**(24,164)**
Property management fees	**(2,237)**	**(1,811)**	**(56)**	**(4,104)**
	$30,901	**$30,224**	**$903**	**$62,028**

For the six months ended June 30, 2019	Retail	Office	Industrial	Total
Revenue from real estate properties	$74,016	$60,947	$2,499	$137,462
Property operating expenses	(17,870)	(15,258)	(390)	(33,518)
Property taxes	(15,225)	(9,025)	(413)	(24,663)
Property management fees	(2,558)	(1,839)	(67)	(4,464)
	$38,363	$34,825	$1,629	$74,817

	Retail	**Office**	**Industrial**	**Total**
As at June 30, 2020				
Real estate properties	**$1,501,219**	**$1,129,553**	**$42,100**	**$2,672,872**
Mortgages payable (based on collateral)	**$602,520**	**$447,847**	**$—**	**$1,050,367**
For the six months ended June 30, 2020				
Additions to real estate properties	**$17,517**	**$2,974**	**$50**	**$20,541**
Fair value losses on real estate properties	**($181,178)**	**($50,204)**	**($1,165)**	**($232,547)**

	Retail	Office	Industrial	Total
As at December 31, 2019				
Real estate properties	$1,671,653	$1,177,220	$43,230	$2,892,103
Mortgages payable (based on collateral)	$612,078	$456,270	$—	$1,068,348
For the six months ended June 30, 2019				
Additions to real estate properties	$12,069	$6,456	$133	$18,658
Fair value (losses)/gains on real estate properties	($30,251)	$423	($454)	($30,282)

NOTE 22
REAL ESTATE PROPERTIES HELD FOR SALE

Real estate properties held for sale are assets that the Trust intends to sell rather than hold on a long-term basis and meet the criteria established in IFRS 5, "Non-Current Assets Held For Sale and Discontinued Operations", for separate classification.

As at June 30, 2020, this represents a 100% interest in a vacant single-tenant retail strip centre, located at 211 Centrum Boulevard, in Ontario. The Trust has executed an agreement to sell this property, and as a result, its fair value has been recorded at the estimated net proceeds in the amount of $6,800.

NOTE 23

SUBSEQUENT EVENTS

Distribution to Unitholders

On June 15, 2020, the Trust declared a distribution of $0.04 per unit which was paid to unitholders on July 15, 2020. Morguard elected to participate in the distribution reinvestment program, and as a result the Trust issued 286,875 units to Morguard on July 15, 2020. After the issuance of units related to this distribution, Morguard owns 59.56% of the Trust's outstanding units as at July 15, 2020.