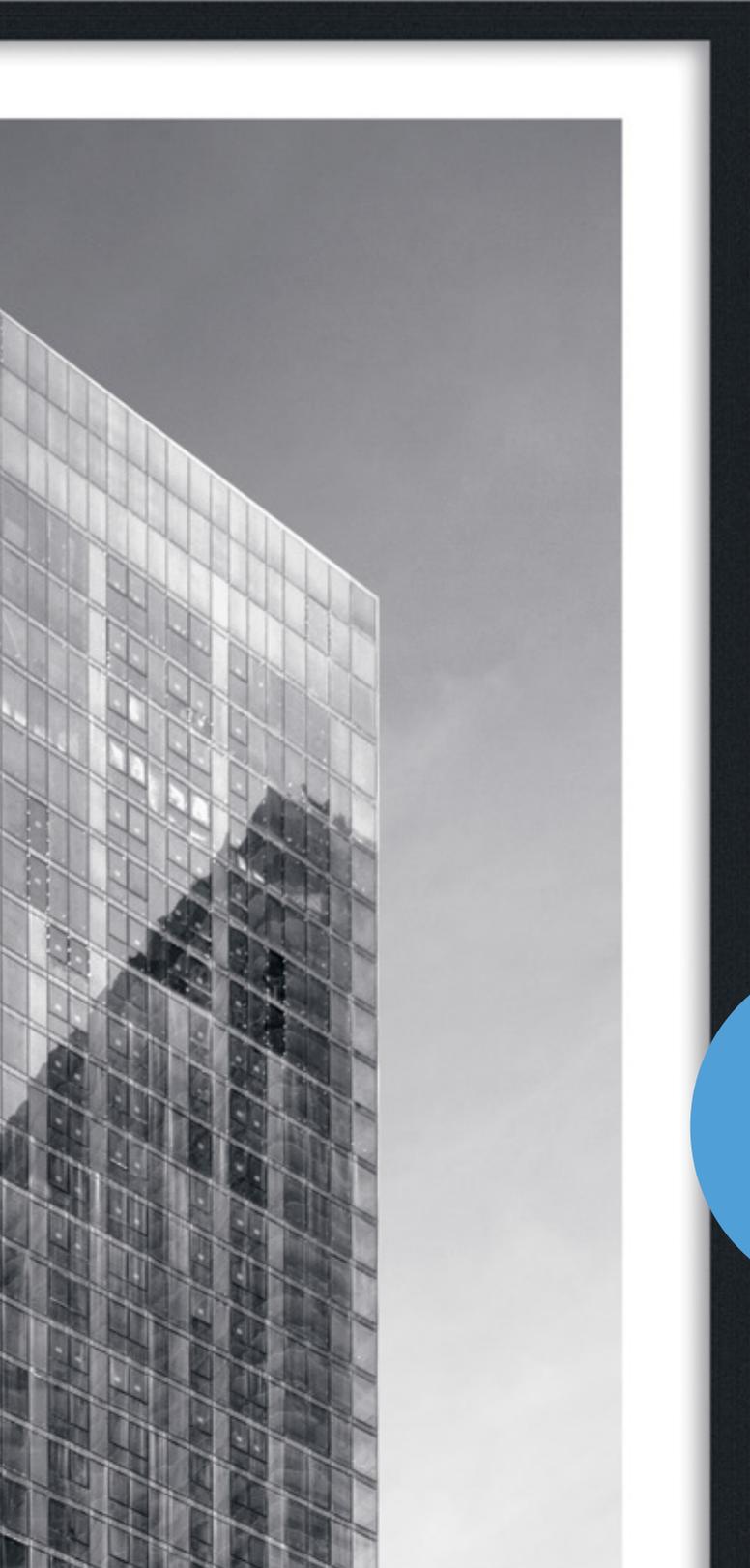


2020 FOURTH QUARTER REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONSOLIDATED FINANCIAL STATEMENTS

MORGUARD CORPORATION



Q4

 Morguard

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

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PART I

Morguard Corporation ("Morguard" or the "Company") is pleased to provide this review of operations and update on our financial performance for the year ended December 31, 2020. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per common share amounts.

The following Management's Discussion and Analysis ("MD&A") sets out the Company's strategies and provides an analysis of the financial performance for the year ended December 31, 2020, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2020 and 2019. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 25, 2021. Disclosure contained in this document is current to that date unless otherwise noted.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words "anticipates", "believes", "may", "continue", "estimate", "expects" and "will" and words of similar expression, constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; changes in business strategy or development/acquisition plans; environmental exposures; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the Company; risk and uncertainties relating to the outbreak of the novel strain of the coronavirus identified as COVID-19 and other factors referred to in the Company's filings with Canadian securities regulators. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not assume the obligation to update or revise any forward-looking statements.

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

NON-IFRS FINANCIAL MEASURES

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

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

NET OPERATING INCOME (“NOI”) AND ADJUSTED NET OPERATING INCOME (“ADJUSTED NOI”)

NOI is defined by the Company as revenue from real estate properties and revenue from hotel properties less property operating costs, utilities, realty taxes and hotel operating expenses as presented in the consolidated statements of income (loss). NOI is an important measure in evaluating the operating performance of the Company's real estate properties and is a key input in determining the fair value of the Company's income producing properties.

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

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

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

COMPARATIVE NOI

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

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

FUNDS FROM OPERATIONS (“FFO”) AND NORMALIZED FFO

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

Normalized FFO is computed as FFO excluding non-recurring items on a net of tax basis and other fair value adjustments. The Company believes it is useful to provide an analysis of Normalized FFO which excludes non-recurring items on a net of tax basis and other fair value adjustments excluded from REALpac's definition of FFO described above.

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

NON-CONSOLIDATED MEASURES

The Company's senior unsecured debentures ("Unsecured Debentures") are subject to the following definitions and covenants pursuant to the Trust Indenture and subsequent Supplemental Indentures, (collectively, the "Indenture"), that are calculated based on the Company's financial results, prepared in accordance with IFRS, adjusted to account for Morguard Real Estate Investment Trust ("Morguard REIT"), Morguard Residential REIT and Temple Hotels Inc. ("Temple") until the Company's privatization of Temple on February 18, 2020, collectively the Company's "Public Entity Investments", using the equity method of accounting and other adjustments as defined by the Indenture described below ("Non-Consolidated Basis" or "Morguard Non-Consolidated Basis"). The presentation of Non-Consolidated Basis measures represents a non-IFRS measure and may not accurately depict the legal and economic implications of the Company.

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

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

NON-CONSOLIDATED INTEREST COVERAGE RATIO

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

Non-Consolidated EBITDA

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

Non-Consolidated Interest Expense

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

NON-CONSOLIDATED INDEBTEDNESS TO AGGREGATE ASSETS RATIO

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

Non-Consolidated Indebtedness

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

Non-Consolidated Aggregate Assets

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

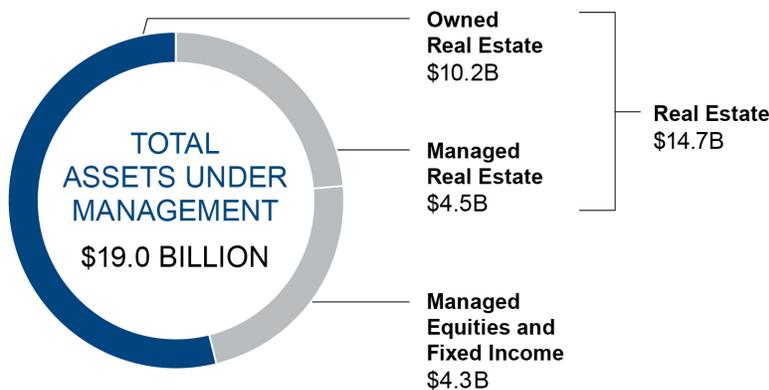
NON-CONSOLIDATED ADJUSTED SHAREHOLDERS' EQUITY

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

PART II

BUSINESS OVERVIEW

Morguard Corporation is a real estate investment company whose principal activities include the acquisition, development and ownership of multi-suite residential, commercial and hotel properties. Morguard is also one of Canada's premier real estate investment advisors and management companies, representing major institutional and private investors. Morguard's total assets under management (including both owned and managed assets) were valued at \$19.0 billion as at December 31, 2020. The Company's common shares are publicly traded and listed on the Toronto Stock Exchange ("TSX") under the symbol "MRC." The Company's primary goal is to accumulate a portfolio of high-quality real estate assets and then deliver the benefits of such real estate ownership to shareholders.



MANAGEMENT AND ADVISORY SERVICES

The Company, through its wholly owned subsidiary, Morguard Investments Limited ("MIL"), provides real estate management services to Canadian institutional investors. Services include acquisitions, development, dispositions, leasing, performance measurement and asset and property management. For over 45 years, MIL has positioned itself as one of Canada's leading providers of real estate portfolio and asset and property management services. In addition, Morguard through its 60% ownership interest in Lincluden Investment Management Limited ("Lincluden") offers institutional clients and private investors a broad range of global investment products across equity, fixed-income and balanced portfolios.

As of December 31, 2020, MIL together with Lincluden manage a portfolio (excluding Morguard's corporately owned assets and assets owned by Morguard REIT and Morguard Residential REIT) of assets having an estimated value of \$8.8 billion.

BUSINESS STRATEGY

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

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

- Increase property values and cash flow through aggressive leasing of available space and of space becoming available;
- Take advantage of long-standing relationships with national and regional tenants;
- Target and execute redevelopment and expansion projects that will generate substantial returns;

- Pursue opportunities to acquire or develop strategically located properties;
- Minimize operating costs by utilizing internalized functions, including property and asset management, leasing, finance, accounting, legal and information technology services; and
- Dispose of properties where the cash flows and values have been maximized.

SIGNIFICANT EVENTS

COVID-19 PANDEMIC

During March 2020, the outbreak of the novel strain of coronavirus ("COVID-19") resulted in governments enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, closure of non-essential businesses, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. Government has reacted with interventions intended to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time. 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 Company in future periods.

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

With the guidance of public health authorities, and at the direction of various levels of government, Morguard continues to implement measures to help reduce the spread of COVID-19. We are actively monitoring the ongoing developments with regards to COVID-19 and are committed to ensuring a healthy and safe environment, adjusting our service model as necessary.

Morguard's strategically diversified asset portfolio and healthy, conservative debt ratios and financial resources provide strength against economic and real estate cycles. Morguard has always been driven by our commitment to real estate for the long term. Our experience has proven that this persistence has driven greater value for our shareholders year over year, and our diversified portfolio and conservative debt level positions us well against any potential challenges. We will continue to carry on with this approach.

LIQUIDITY

The Company has liquidity of approximately \$564,000 comprised of \$142,000 in cash and \$422,000 available under its revolving credit facilities. In addition, the Company has approximately \$1,315,000 of unencumbered income producing and hotel properties, and other investments which could be utilized for financing. To further enhance liquidity, the Company has narrowed down the scope of its capital expenditure program to ensure the availability of resources, allocating an amount that enables the Company to maintain the structural and overall safety of the properties. Management has also implemented various initiatives to reduce or defer operating expenses, property tax instalments, hydro payments and corporate income tax instalments. Management is also monitoring various government assistance programs in Canada and the U.S. structured to provide relief from personnel costs and commercial rent subsidies.

The Company has approximately \$877,500 of mortgages payable maturing during 2021 and 2022 having an aggregate loan-to-value ratio of 42% which management expects to be able to refinance at similar or favourable terms. In addition, the Company has \$200,000 of senior unsecured debentures maturing in May 2021. The Company expects to be able to issue new debt instruments and use current liquidity sufficient to permit the repayment of its 2021 and 2022 maturities.

RENTAL COLLECTION SUMMARY

As at February 25, 2021, the Company's collection of rental revenues during 2020 and January 2021 are summarized below by asset class:

Asset Class	Q1 2020	Q2 2020	Q3 2020	October 2020	November 2020	December 2020	January 2021	% of Rental Revenue
Residential	99.8%	99.6%	99.4%	99.0%	98.6%	98.2%	97.3%	44.3%
Retail	98.3%	62.4%	85.6%	88.7%	87.1%	84.0%	79.6%	27.1%
Office	99.9%	92.8%	98.1%	97.3%	96.9%	96.5%	96.0%	27.3%
Industrial	100.0%	93.5%	96.9%	98.8%	98.3%	97.3%	98.1%	1.3%
Total	99.4%	86.6%	95.0%	95.5%	94.6%	93.4%	91.8%	100.0%

The table above is calculated based on contractual rent in-place as at December 31, 2020, which includes lease modifications resulting in abated rent, the impact of deferral agreements and amounts received as part of the CECRA program (defined below).

CANADA EMERGENCY COMMERCIAL RENT ASSISTANCE ("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 businesses and commercial landlords who are experiencing financial difficulties during the COVID-19 pandemic.

Over the course of the program, property owners will reduce rent by at least 75% for the months of April through September 2020 for their small business tenants. 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 were forgiven on December 31, 2020, as the Company agreed to the loans specified terms, including reducing the small business tenants' rent by at least 75% under a rent reduction agreement and the landlord must follow the terms and conditions of the loan, including complying with the rent reduction agreement.

The Company decided that it was important to participate in the program and actively worked with 634 tenants to finalize applications under the CECRA program, and as at December 31, 2020, the Company received all scheduled government funding.

The details of the amount forgiven by the landlord and recoverable from the Government of Canada during the year ended December 31, 2020 is outlined in the following table:

For the year ended December 31, 2020	Landlord Portion	Government Portion	CECRA Total	Tenant Enrolment ⁽¹⁾
Retail	\$4,004	\$8,008	\$12,012	5.0%
Office	882	1,764	2,646	1.1%
Industrial	164	328	492	4.3%
Total	\$5,050	\$10,100	\$15,150	3.1%

⁽¹⁾ As a percentage of each respective segment revenue for the year ended December 31, 2020.

On October 9, 2020, the Government of Canada announced a new rent relief program for tenants which will be available until June 2021. The program will fund up to 65% of rent for businesses that have seen revenue decline by at least 70%. Businesses that have had revenue fall by less than 70% will receive gradual decreasing level of support in line with revenues. Businesses that are forced to temporarily shut down by mandatory orders will be able to qualify for funding that covers up to 95% of rent.

TENANT ACCOUNTS RECEIVABLE

The Company utilizes the simplified approach to measure expected credit losses ("ECL") under IFRS 9, Financial Instruments ("IFRS 9"), which requires the Company to recognize a lifetime expected credit loss allowance on all receivables at each reporting date. During each reporting period management reviews the Company's amounts receivables and determines an allowance for doubtful accounts recognized through bad debt expense in the consolidated financial statements of income (loss).

As at December 31, 2020, the details of tenant receivables, net of an allowance for doubtful accounts is provided below:

	2020		2019	
As at December 31	Tenant Receivables	Allowance for Doubtful Accounts	Net Tenant Receivables	Net Tenant Receivables
Residential	\$4,176	(\$1,764)	\$2,412	\$1,289
Retail	31,821	(12,125)	19,696	2,926
Office	9,932	(2,663)	7,269	3,570
Industrial	159	(23)	136	47
Hotel	2,863	(127)	2,736	6,936
Total	\$48,951	(\$16,702)	\$32,249	\$14,768

As at December 31, 2020, tenant receivables, net of an allowance for doubtful accounts totalled \$32,249, with retail (61.1%) and office (22.5%) representing 83.6% of total net tenant receivables, reflecting lower collections within the retail asset class which has averaged 78.2% during the quarters subsequent to the first quarter of 2020. As a result of the COVID-19 pandemic, certain medium and larger size tenants were unable to fulfil their rent obligations and there are a large number of retail tenants who have requested consideration for a deferral or an abatement. Management has considered the financial uncertainties faced by the Company's tenants and has provided for tenant receivable balances based on an assessment of each tenant's expected credit loss, applying credit loss factors based on historical loss experience along with forward-looking information. In addition, during the year, the Company finalized all applications under the CECRA program providing tenants with short-term financial certainty and management expects additional government programs offered will further benefit tenants impacted by temporary shut down by mandatory orders.

BAD DEBT EXPENSE (RECOVERY)

The Company utilizes the simplified approach to measure expected credit losses under IFRS 9, which requires the Company to recognize a lifetime expected credit loss allowance on all receivables at each reporting date.

The details of bad debt expense (recovery), which includes the landlord portion of the CECRA program, recorded for the three months and years ended December 31, 2020 and 2019 is provided below:

For the three months ended December 31	2020	% of Revenue	2019	% of Revenue
Residential	\$1,112	1.2%	\$346	0.4%
Retail	7,526	11.9%	811	1.3%
Office	638	1.0%	124	0.2%
Industrial	30	0.9%	1	—%
Hotel	6	—%	(24)	—%
Total	\$9,312	3.8%	\$1,258	0.4%

For the year ended December 31	2020	% of Revenue	2019	% of Revenue
Residential	\$3,204	0.8%	\$1,891	0.5%
Retail	20,158	8.4%	1,287	0.5%
Office	3,636	1.5%	379	0.2%
Industrial	194	1.7%	1	—%
Hotel	72	0.1%	2	—%
Total	\$27,264	2.8%	\$3,560	0.3%

CANADA EMERGENCY WAGE SUBSIDY ("CEWS") PROGRAM

On April 11, 2020, the Canada Emergency Wage Subsidy was enacted, which provides a subsidy for each employee employed between March 15 to June 6, 2020. Subsequently, the Government of Canada extended CEWS to June 2021. The subsidy for the claim periods ending on July 4, 2020 is equal to 75% of an employee's weekly remuneration, up to a maximum of \$847 (in actual dollars) per week per employee and the subsidy rate varies, depending on the decline in revenue for subsequent claim periods. A company, or a group of companies under

common control, will become eligible for the program if they've experienced a reduction in revenue during the qualification period.

The Company and associated related party group under common control with the Company, including Morguard's parent company, Paros Enterprises Limited, have satisfied certain eligibility criteria, including (among others) a significant decline in revenue due to the temporary closures of non-essential services. The Company will continue to assess its eligibility for subsequent claim periods.

For the year ended December 31, 2020, the Company recorded \$24,503 as a deduction of the related expense, of which \$2,339, \$14,079 and \$8,085 are a deduction of property operating costs, hotel operating expenses and property management and corporate expenses, respectively.

OPERATIONAL UPDATE

The following provides an operating update on the Company's portfolio by asset class:

RESIDENTIAL

The Company is adhering to various federal, provincial, state and local eviction moratorium policies and has implemented a rent deferral program for our residential tenants who are financially constrained due to the impact of COVID-19. The Company will also ensure pertinent and timely information regarding government financial support programs is shared with tenants. As at February 25, 2021, approximately 0.9% of residential tenants have deferred payment plans. In addition, commencing with April 2020's rental payment, the Company waived the collection of rental increases and late fees for existing tenants up to and including August 2020's rental payment. On December 26, 2020, the Ontario government announced another province-wide shutdown and stay-at-home Order; and further announced on February 8, 2021, the transition to a regional approach to staged reopening. During this state of emergency, the Ontario government has issued an emergency order temporarily halting the enforcement of residential evictions. While the Landlord and Tenant Board ("LTB") will continue to hear eviction applications and issue eviction orders, these orders will not be carried out while the province is under a state of emergency. In the U.S. regions where the REIT operates, similar measures have been taken during the year to pause evictions, and on September 4, 2020, the Department of Health and Human Services and the Centers for Disease Control and Prevention issued an order titled *Temporary Halt in Residential Evictions to Prevent the Further Spread of COVID-19* for eligible tenants until December 31, 2020 which has subsequently been extended to March 31, 2021.

As at February 25, 2021, the Company's occupancy in Canada and the U.S. with the exception of a few properties directly impacted by university and local business closures remains stable as leasing agents work remotely and utilize online technology to continue leasing activity following the onset of social distancing guidelines. Generally speaking, current conditions including social distancing have reduced leasing traffic. In addition, management will continue to closely monitor any impact Ontario's current state of emergency as well as the extension of the U.S. eviction moratorium may have on traffic and turnover levels in the coming months.

RETAIL & OFFICE

Due to non-essential business closure orders issued by the various provinces in Canada, the majority of the Company's retail tenants were closed for portions of the second and fourth quarter. The easing of these restrictions varied by province and by industry. As at February 25, 2021, all of the Company's enclosed malls are now open and the vast majority of tenants are allowed to operate, with the exception of two enclosed malls located in Toronto, Ontario, where non-essential businesses remain closed.

Buildings within the Company's office portfolio have generally remained open during the pandemic, however, due to closure of non-essential businesses and social distancing requirements most of our tenants have implemented a work-from-home protocol. The Company has a significant amount of office space leased to government tenants which has helped mitigate the risk of non-payment of rent. Approximately 38% of the Company's office annualized rental revenue is derived from government tenants.

The Company continues to work with all tenants to review their circumstances and to consider rent deferrals or abatements as necessary and are being supportive of small business retail tenants. Deferrals and abatements are being considered on a case-by-case basis. The federal government has also introduced legislation to assist landlords and small businesses with their rent obligations during the COVID-19 pandemic.

HOTELS

The Company has undertaken significant steps to mitigate the operational and financial impacts from emergency measures enacted to combat the COVID-19 pandemic. As at February 25, 2021, of the Company's 37 hotels, 33 are currently open for business at reduced occupancy levels and are serving guests in compliance with government health guidelines. The Company's hotel asset class represents less than 10% of total NOI and less than 5% of total assets, as Morguard's diversified asset portfolio provides strength against economic and real estate cycles.

TEMPLE PRIVATIZATION

On December 19, 2019, the Company entered into a definitive agreement (the "Arrangement Agreement") with Temple to acquire all of the outstanding common shares of Temple not currently owned by the Company. The transaction was effected by way of a court-approved plan of arrangement under the *Canada Business Corporations Act*. The Arrangement Agreement provides that holders of Temple common shares, excluding the Company, will receive cash consideration of \$2.10 per Temple common share from the Company. On the day of the Arrangement Agreement, the Company owned 54,492,911 Temple common shares, representing approximately 72.6% of the total Temple common shares issued and outstanding.

A meeting of Temple shareholders was held February 10, 2020, whereat Temple shareholders approved a special resolution approving the acquisition by the Company of all of the issued and outstanding common shares of Temple not already owned by the Company. The Arrangement Agreement was completed on February 18, 2020, and the Company acquired an aggregate of 20,668,856 Temple common shares for a total consideration of \$44,149. On February 19, 2020, Temple de-listed from the TSX.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at December 31	2020	2019	2018
Real estate properties	\$9,680,408	\$10,201,283	\$9,645,596
Hotel properties	545,041	628,783	666,078
Equity-accounted and other fund investments	216,278	248,665	281,464
Total assets	11,052,688	11,703,084	11,082,758
Indebtedness ⁽¹⁾	\$5,835,647	\$5,919,939	\$5,498,668
Indebtedness to total assets (%)	52.8	50.6	49.6
Non-Consolidated Indebtedness to total assets (%) ⁽²⁾	47.6	43.8	39.8
Total equity	\$3,912,698	\$4,305,717	\$4,228,798
Shareholders' equity per common share	303.57	314.55	303.84
Exchange rates - Canadian dollar to U.S. dollar	\$0.79	\$0.77	\$0.73
Exchange rates - U.S. dollar to Canadian dollar	\$1.27	\$1.30	\$1.36

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

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

For the years ended December 31	2020	2019	2018
Revenue from real estate properties	\$888,324	\$872,223	\$841,497
Revenue from hotel properties	98,046	245,282	237,938
Management and advisory fees	42,080	52,401	62,096
Total revenue	1,044,189	1,189,173	1,157,878
Net operating income	491,243	556,181	547,975
Fair value gain (loss), net	(493,945)	7,731	167,235
Net income (loss) attributable to common shareholders	(98,918)	186,939	319,851
Per common share - basic and diluted	(8.83)	16.57	27.96
Funds from operations	161,200	250,871	232,396
Per common share - basic and diluted	14.39	22.23	20.32
Normalized FFO	181,205	225,612	218,215
Per common share - basic and diluted	16.17	19.99	19.08
Distributions received from Morguard REIT	23,468	33,750	32,790
Distributions received from Morguard Residential REIT	17,607	16,675	15,849
Dividends declared/paid	(6,714)	(6,770)	(6,842)
Average exchange rates - Canadian dollar to U.S. dollar	0.75	0.75	0.77
Average exchange rates - U.S. dollar to Canadian dollar	1.34	1.33	1.30

Total assets as at December 31, 2020, were \$11,052,688, compared to \$11,703,084 as at December 31, 2019. Total assets decreased by \$650,396 primarily due to the following:

- A decrease in real estate properties of \$520,875, mainly due to a net fair value loss of \$511,472, the disposition of real estate properties of \$45,377 and a decrease resulting from a change in the foreign exchange rate amounting to \$57,235, partially offset by capital and development expenditures of \$70,501 and tenant incentives and leasing commissions of \$16,718;
- A decrease in hotel properties of \$83,742, primarily due to an impairment provision of \$37,041, amortization of \$27,333 and disposition of hotel properties of \$26,510;
- A decrease in equity-accounted and other fund investments of \$32,387, predominantly due to distributions received, the Company's share of net loss which was primarily driven by a net fair value loss and a decrease in the foreign exchange rate, partially offset by equity contributions;
- A decrease in other assets and prepaid expense of \$47,164, primarily due to a decrease in investment in marketable securities and accrued pension benefit asset;
- An increase in amounts receivable of \$14,852, primarily due to higher tenant receivable balances resulting from lower collection rates; and
- An increase in cash of \$18,920.

Total revenue during the year ended December 31, 2020, decreased by \$144,984 to \$1,044,189, compared to \$1,189,173 in 2019. The decrease was primarily due to the following:

- A decrease in revenue from hotel properties in the amount of \$147,236;
- A decrease in management and advisory fees in the amount of \$10,321; and
- A decrease in interest and other income of \$3,528.

PROPERTY PROFILE

As at December 31, 2020, the Company and its subsidiaries own a diversified portfolio of 203 multi-suite residential, retail, office, industrial and hotel properties located in Canada and in the United States.

PORTFOLIO COMPOSITION BY ASSET TYPE

The composition of the Company's real estate properties by asset type as at December 31, 2020 was as follows:

Asset Type	Number of Properties	GLA Square Feet (000s) ⁽¹⁾	Apartment Suites/Hotels Rooms ⁽²⁾	Real Estate Properties
Multi-suite residential	56	—	17,752	\$4,977,160
Retail	37	8,178	—	2,123,799
Office	49	7,695	—	2,330,755
Industrial	24	1,015	—	133,512
Hotel	37	—	5,517	554,578
Properties and land held for and under development	—	—	—	112,189
Total⁽³⁾	203	16,888	23,269	\$10,231,993

(1) Total GLA is shown on a proportionate basis; on a 100% basis, total GLA of the Company's commercial properties is 20.4 million square feet.

(2) Total suites/hotel rooms include equity-accounted investments and non-controlling interest. The Company on a proportionate basis has ownership of 17,184 suites and 5,280 hotel rooms.

(3) Includes one multi-suite residential, two office properties and two hotel properties classified as equity-accounted investments and one office property classified as finance lease and excludes right-of-use assets on the Company's land leases.

The Company's multi-suite residential portfolio comprises 24 Canadian properties (21 high-rise buildings, two low-rise buildings and one mid-rise building located primarily throughout the Greater Toronto Area ("GTA")) and 32 U.S. properties (20 low-rise and eight mid-rise garden-style communities located in Colorado, Texas, Louisiana, Georgia, Florida, North Carolina, Virginia and Maryland and four high-rise buildings located in Chicago, Illinois and Los Angeles, California). The combined multi-suite residential portfolio represents 17,752 suites.

The Company's retail portfolio includes two broad categories of income producing properties: (i) enclosed full-scale, regional shopping centres that are dominant in their respective markets; and (ii) neighbourhood and community shopping centres that are primarily anchored by food retailers, discount department stores and banking institutions. The retail portfolio comprises 26 properties located in Canada and 11 properties located in Florida and Louisiana. The combined retail portfolio represents 8.2 million square feet of gross leasable area ("GLA").

The Company's office portfolio is focused on well-located, high-quality office buildings in major Canadian urban centres primarily located throughout the GTA, downtown Ottawa, Montréal, Calgary and Edmonton. The portfolio is balanced between single-tenant buildings under long-term lease to government and large national tenants and multi-tenant properties with well-distributed lease expiries that allow the Company to benefit from increased rent on lease renewals. The office portfolio represents 7.7 million square feet of GLA.

The Company's industrial portfolio comprises 24 industrial properties located throughout Ontario, Québec and British Columbia. The industrial portfolio represents 1.0 million square feet of GLA.

The Company's hotel portfolio comprises 22 branded and 15 unbranded hotel properties located in six Canadian provinces and the Northwest Territories. Branded hotels include Hilton, Marriott, Holiday Inn and Wyndham and consist of full and select service formats. The hotel portfolio represents 5,517 rooms.

AVERAGE OCCUPANCY LEVELS
COMPARATIVE AVERAGE OCCUPANCY LEVELS

	Suites/GLA Square Feet	Dec. 2020	Sep. 2020	June 2020	Mar. 2020	Dec. 2019
Multi-suite residential	17,752 ⁽¹⁾	91.6%	94.0%	94.9%	96.8%	96.6%
Retail	7,634,500 ⁽²⁾	93.2%	90.7%	91.2%	90.9%	91.4%
Office	7,695,000	90.6%	91.8%	91.8%	91.8%	91.8%
Industrial	1,015,000	90.9%	91.1%	91.3%	89.9%	89.9%

(1) Includes two properties that commenced initial lease-up in the fourth quarter of 2020, one property located in Los Angeles, California and one property located in New Orleans, Louisiana. Excluding the two properties under initial lease-up, occupancy at December 31, 2020 is 93.1%.

(2) Retail occupancy has been adjusted to exclude development space of 544,197 square feet of GLA.

During the fourth quarter of 2020, 231,638 square feet of GLA relating to future development space was taken off-stream to allow for future redevelopment and lease-up. As at December 31, 2020, the retail occupancy levels were adjusted to exclude development space (544,197 square feet of GLA), this adjustment increased retail occupancy from 87.0% to 93.2%.

PART III

REVIEW OF OPERATIONAL RESULTS

The Company's operational results for the years ended December 31, 2020 and 2019 are summarized below:

For the years ended December 31	2020	2019
Revenue from real estate properties	\$888,324	\$872,223
Revenue from hotel properties	98,046	245,282
Property operating expenses		
Property operating costs	(212,299)	(186,656)
Utilities	(56,603)	(58,167)
Realty taxes	(136,556)	(126,773)
Hotel operating expenses	(89,669)	(189,728)
Net operating income	491,243	556,181
OTHER REVENUE		
Management and advisory fees	42,080	52,401
Interest and other income	15,739	19,267
	57,819	71,668
EXPENSES		
Interest	236,721	230,895
Property management and corporate	59,607	94,129
Amortization of hotel properties and other	35,295	36,152
Provision for impairment	37,041	22,923
	368,664	384,099
OTHER INCOME (EXPENSE)		
Fair value gain (loss), net	(493,945)	7,731
Equity loss from investments	(7,470)	(28,825)
Other income	1,233	2,835
	(500,182)	(18,259)
Income (loss) before income taxes	(319,784)	225,491
Provision for (recovery of) income taxes		
Current	8,260	11,422
Deferred	(77,994)	25,273
	(69,734)	36,695
Net income (loss) for the year	(\$250,050)	\$188,796
Net income (loss) attributable to:		
Common shareholders	(\$98,918)	\$186,939
Non-controlling interest	(151,132)	1,857
	(\$250,050)	\$188,796
Net income (loss) per common share attributable to:		
Common shareholders - basic and diluted	(\$8.83)	\$16.57

NET INCOME (LOSS)

Net loss for the year ended December 31, 2020, was \$250,050, compared to net income of \$188,796 in 2019. The decrease in net income of \$438,846 for the year ended December 31, 2020, was primarily due to the following:

- A decrease in net operating income of \$64,938, primarily due to lower NOI from the hotel portfolio due to hotel closures and reduced occupancies. In addition, lower NOI from the retail, office and industrial portfolio was mainly caused by higher bad debt expense, partially offset by an increase in multi-suite residential NOI and from the net impact of acquisitions and dispositions completed during and subsequent to the year ended December 31, 2019. Included in NOI is a provision for CEWS which partially offset the overall decline in NOI;

- A decrease in management and advisory fees of \$10,321, mainly due to lower property management, asset management, leasing and disposition fees;
- A decrease in interest and other income of \$3,528, mainly due to lower income earned from investments;
- An increase in interest expense of \$5,826, mainly due to higher interest on Unsecured Debentures and amortization of deferred financing costs, partially offset by lower interest on convertible debentures, mortgages payable and loans payable;
- A decrease in property management and corporate expense of \$34,522, primarily due to a decrease in non-cash compensation expense related to the Company's Stock Appreciation Rights ("SARs") plan, a provision for CEWS and a decrease in corporate expenses;
- An increase in provision for impairment of \$14,118;
- An increase in non-cash net fair value loss of \$501,676, mainly due to an increase in net fair value loss recorded on the Company's real estate properties and an increase in net fair value loss on the Company's marketable securities and other real estate fund investments, partially offset by an increase in the fair value gain on Morguard Residential REIT Units;
- A decrease in equity loss from investments of \$21,355, primarily due to a lower fair value loss recorded on the Company's real estate property investments; and
- An increase in income tax recovery (current and deferred) of \$106,429.

NET OPERATING INCOME

Net operating income decreased by \$64,938, or 11.7%, during the year ended December 31, 2020, to \$491,243, compared to \$556,181 generated in 2019, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the years ended December 31	2020	2019
Multi-suite residential	\$227,565	\$212,039
Retail	116,201	143,458
Office	131,836	136,480
Industrial	7,264	8,795
Hotel	8,377	55,554
Adjusted NOI	491,243	556,326
IFRIC 21 adjustment - multi-suite residential	—	(134)
IFRIC 21 adjustment - retail	—	(11)
NOI	\$491,243	\$556,181

NOI from the multi-suite residential portfolio for the year ended December 31, 2020, increased by \$15,660, or 7.4% to \$227,565, compared to \$211,905 in 2019. The increase in NOI is due to the change in Adjusted NOI described below, and by an increase of \$134 resulting from a IFRIC 21 deduction in 2019.

Adjusted NOI from the multi-suite residential portfolio for the year ended December 31, 2020, increased by \$15,526, or 7.3% to \$227,565, compared to \$212,039 in 2019. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian multi-suite residential properties of \$1,569 primarily resulting from:
 - An increase of \$2,489 mainly from rental rate growth and lower repairs and maintenance expenditures from reduced non-essential spending, net of bad higher debt expense, increased vacancy and concessions given to existing tenants for the collection of rental increases during the pandemic through August 2020. The average rental rate increased by 4.8% when compared to the same period in 2019. During the year ended December 31, 2020, the Company's Canadian portfolio turned over 838 suites, or 10.5% of total suites and achieved AMR growth of 14.7% on suite turnover; and
 - A decrease of \$920 due to a lower realty tax refund received during 2020 compared to the same period in 2019;
- An increase in U.S. multi-suite residential properties of US\$9,353 primarily resulting from:
 - An increase of US\$339 mainly from rental rate growth, partially offset by an increase in bad debt expense and higher vacancy. The average rental rate increased by 0.5% when compared to the same period in 2019; and

- An increase of US\$9,606 predominantly due to the acquisition of the remaining 51% interest in Marquee at Block 37, Chicago, Illinois, and consolidation of its equity investment interest during the fourth quarter of 2019;
- A decrease of US\$592 predominantly due to the sale of five properties located in Louisiana, during the first and second quarter of 2019; and
- An increase of \$4,604 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the year ended December 31, 2020, decreased by \$27,246, or 19.0%, to \$116,201, compared to \$143,447 in 2019. The decrease in NOI is due to the change in Adjusted NOI described below, partially offset by an increase of \$11 resulting from a IFRIC 21 deduction in 2019.

Adjusted NOI from the retail portfolio for the year ended December 31, 2020, decreased by \$27,257, or 19.0%, to \$116,201, compared to \$143,458 in 2019. The decrease in Adjusted NOI is primarily due to the following:

- A decrease in Canadian retail properties of \$23,959 primarily resulting from:
 - A decrease of \$17,952 due to higher bad debt expense resulting from failed tenants and an expected credit loss due to the economic impact of COVID-19. Included in bad debt expense is \$4,004 from the 25% landlord portion of the CECRA program;
 - A decrease of \$4,222 predominantly due to lower recoveries of operating expenses in part due to lower expense levels, a decrease from lower basic rent due to restructuring via CCAA and bankruptcy filings, and/or conversion to percentage rent leases, and increased non-recoverable operating expenses;
 - A decrease of \$721 in lease cancellation fees received; and
 - A decrease of \$1,064 due to non-recurring income from a prior year realty tax refund and a settlement of disputed charges received in 2019;
- A decrease in U.S. retail properties of US\$2,684 primarily resulting from:
 - A decrease of US\$1,362 due to lower rental rates, loss of tenants, rent abatements and lower recoveries mainly at three shopping centres located in Florida;
 - A decrease of US\$705 due to bad debt expense resulting from failed tenants and expected credit losses due to the economic impact of COVID-19;
 - A decrease of US\$617 due to the sale of a property during the fourth quarter of 2019; and
- A decrease of \$614 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the year ended December 31, 2020, decreased by \$4,644, or 3.4%, to \$131,836, compared to \$136,480 in 2019, primarily due to the following:

- A decrease of \$3,257 due to higher bad debt expense in part from the 25% landlord portion of the CECRA program and the economic impact of COVID-19;
- A decrease of \$6,100 due to rent abatement at a property located in Calgary, Alberta;
- A decrease of \$3,334 predominantly due to lower recoveries of operating expenses in part due to lower expense levels and a decrease from lower basic rent and parking revenue;
- An increase of \$7,501 due to the acquisition of 99 Metcalfe Street, Ottawa, Ontario and a 50% interest in Mississauga City Centre, a four-building portfolio located in Mississauga, Ontario completed during 2019; and
- An increase of \$546 in lease cancellation fee received.

NOI from the industrial portfolio for the year ended December 31, 2020, decreased by \$1,531, or 17.4%, to \$7,264, compared to \$8,795 in 2019, primarily due to the following:

- A decrease of \$2,077 due to the sale of a property located in Salaberry-de-Valleyfield, Québec during the third quarter of 2019 and a property located in Puslinch, Ontario during the first quarter of 2020; and
- An increase of \$546 due to higher basic rent mainly at two properties.

NOI from the hotel portfolio for the year ended December 31, 2020, decreased by \$47,177, or 84.9%, to \$8,377, compared to \$55,554 in 2019, primarily due to the following:

- A decrease of \$61,256 mainly due to current economic conditions experienced in all provinces as a result of the COVID-19 pandemic. During the year ended December 31, 2020, hotel occupancy was 29.7%, compared to 63.3% during the same period in 2019. The average daily rate ("ADR") decreased to \$125.44 during the

year ended December 31, 2020, compared to \$145.19 in 2019 and revenue per available room ("RevPar") decreased by \$54.68 to \$37.22 during the year, compared to \$91.90 in 2019. The decrease in RevPar was partly offset by controlling variable hotel operating expenses in connection with decreased occupancy; partially offset by

- An increase of \$14,079 due to a provision for CEWS.

COMPARATIVE NET OPERATING INCOME

For the years ended December 31	2020	2019
Multi-suite residential (in local currency)	\$182,531	\$180,158
Retail (in local currency)	108,260	132,691
Office	122,084	134,428
Industrial	6,824	6,246
Hotel	10,528	51,347
Exchange amount to Canadian dollars	35,851	34,976
Comparative NOI	466,078	539,846
Acquired properties	25,039	4,467
Dispositions	(1,893)	6,491
Realty tax expense accounted for under IFRIC 21	—	(145)
Lease cancellation fees	2,312	2,808
Canadian hotel development	157	1,864
U.S. residential development	(118)	—
Realty tax refund/reassessment	1,357	1,877
Other	(1,689)	(1,027)
NOI	\$491,243	\$556,181

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

Comparative NOI for the year ended December 31, 2020, decreased by \$73,768, to \$466,078 compared to \$539,846 in 2019 due to the following:

- Multi-suite residential increased by \$2,373 as a result of an increase in Canadian and U.S. rental rate growth, net of higher bad debt expense and increased vacancy;
- Retail decreased by \$24,431, mainly due to increased bad debt expense of \$18,871 in part from the 25% landlord portion of the CECRA program and the economic impact of COVID-19 mainly at the Canadian properties;
- Office decreased by \$12,344, mainly due to increased bad debt expense of \$3,257 in part from the 25% landlord portion of the CECRA program and a decrease of \$6,100 due to a rent abatement at a property located in Calgary, Alberta;
- Hotel decreased by \$40,819, mainly as a result of hotel closures and reduced occupancies due to current economic conditions experienced as a result of COVID-19; and
- The change in the foreign exchange rate increased Comparative NOI for the U.S. properties by \$875.

MANAGEMENT AND ADVISORY FEES

Morguard's management and advisory fee revenue for the year ended December 31, 2020, decreased by \$10,321, or 19.7%, to \$42,080, compared to \$52,401 in 2019, primarily due to lower property management, asset management, leasing and disposition fees earned compared to 2019.

INTEREST AND OTHER INCOME

Interest and other income for the year ended December 31, 2020, decreased by \$3,528, or 18.3%, to \$15,739, compared to \$19,267 in 2019. The decrease was primarily due to lower income earned from investments.

INTEREST EXPENSE

Interest expense consists of the following:

For the years ended December 31	2020	2019
Mortgages payable	\$161,228	\$163,812
Debentures payable, net of accretion	55,761	47,740
Bank indebtedness	5,259	5,089
Loans payable and other	1,510	2,810
Lease liabilities	9,440	9,679
Amortization of mark-to-market adjustments on mortgages, net	(4,552)	(5,501)
Amortization of deferred financing costs	8,772	7,268
Loss on extinguishment of mortgage payable	—	561
	237,418	231,458
Less: Interest capitalized to properties under development	(697)	(563)
	\$236,721	\$230,895

Interest expense for the year ended December 31, 2020, increased by \$5,826, or 2.5%, to \$236,721, compared to \$230,895 in 2019, mainly due to higher interest on Unsecured Debentures resulting from the issuance of the Series E, Series F and Series G unsecured debentures in January 2019, November 2019 and September 2020, respectively, net of the repayment of the Series B unsecured debentures in November 2020, and higher amortization of deferred financing cost, partially offset by lower interest on convertible debentures due to the repayment of Temple's Series E convertible debentures in April 2019, lower interest on loans payable and other, and lower interest on mortgages payable.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the year ended December 31, 2020, decreased by \$34,522, to \$59,607, compared to \$94,129 in 2019, primarily due to a decrease in non-cash compensation expense related to the Company's SARs plan of \$16,759, a provision for CEWS of \$8,085 and a decrease in corporate expenses mainly from a reduction in non-essential projects and travel and entertainment costs, and lower salaries from unfilled vacant positions.

AMORTIZATION OF HOTEL PROPERTIES AND OTHER

Amortization of hotel properties and other for the year ended December 31, 2020, decreased by \$857 to \$35,295, compared to \$36,152 in 2019.

PROVISION FOR IMPAIRMENT

During the year ended December 31, 2020, impairment indicators were identified including interruptions to business operations at certain hotel properties resulting from emergency measures enacted to combat COVID-19. Since March 2020, at the onset of the outbreak of the COVID-19 pandemic, 21 of the Company's hotel properties were subject to temporary closure of which three hotels remain closed. A recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of \$37,041 should be recorded.

FAIR VALUE GAIN (LOSS) ON REAL ESTATE PROPERTIES

Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including changes in projected cash flows as a result of leasing, capitalization rates, discount rates and terminal capitalization rates. During the year ended December 31, 2020, the Company recognized a net fair value loss on real estate properties of \$511,472, compared to a net fair value gain of \$27,057 in 2019.

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

For the years ended December 31	2020	2019
Multi-suite residential	\$86,287	\$72,823
Retail	(477,368)	(51,861)
Office	(134,417)	(14,511)
Industrial	11,603	13,600
Properties under development	—	(61)
Land held for development	2,423	7,067
	(\$511,472)	\$27,057

For the year ended December 31, 2020, the Company recognized a net fair value gain of \$86,287 in the residential portfolio. The fair value gain is comprised of \$196,329 at the Canadian properties primarily as a result of a 25 basis point decrease in capitalization rates at properties located in the GTA as well as an increase in stabilized NOI, and a fair value loss of \$110,042 at the U.S. properties due to a decrease in stabilized NOI.

For the year ended December 31, 2020, the Company recognized a net fair value loss of \$477,368 in the retail portfolio. The fair value loss consists of \$414,644 at the Canadian properties predominantly due to a 25-50 basis point increase in capitalization rates and reductions in cash flow assumptions at most of the Company's enclosed malls due to COVID-19, and a fair value loss of \$62,724 at U.S. properties which was predominantly due to a 75 basis point increase in the capitalization rate at a property located in Louisiana and due to lower stabilized NOI.

For the year ended December 31, 2020, the Company recognized a net fair value loss of \$134,417 in the office portfolio. The fair value loss was mainly due to a 75 basis point increase in the capitalization rate and reductions in cash flow assumptions resulting from a lease amendment at a property located in Calgary, Alberta, and due to assumptions on the collectibility of rental revenue on cash flows due to COVID-19.

FAIR VALUE GAIN ON MORGUARD RESIDENTIAL REIT UNITS

For the year ended December 31, 2020, the Company recorded a fair value gain on the Morguard Residential REIT Units of \$49,269, which includes a mark-to-market gain of \$70,996 on the Units as a result of a downward trend in the trading price and the distributions made to external Unitholders of \$21,727.

FAIR VALUE LOSS ON INVESTMENT IN MARKETABLE SECURITIES

Investment in marketable securities are classified as financial assets measured at FVTPL. For the year ended December 31, 2020, the Company recorded a fair value loss on investment in marketable securities of \$28,239 resulting from a decrease in market value of the securities.

EQUITY LOSS FROM INVESTMENTS

Equity loss from investments consists of the following:

For the years ended December 31	2020	2019
Joint ventures	(\$3,904)	(\$2,708)
Associates	(3,566)	(26,117)
	(\$7,470)	(\$28,825)

Equity loss from investments for the year ended December 31, 2020, decreased by \$21,355 to \$7,470, compared to \$28,825 in 2019. The decrease in equity loss is predominantly due to a fair value loss recorded on the Company's investment in Marquee at Block 37 in 2019.

OTHER INCOME

Other income for the year ended December 31, 2020, decreased by \$1,602 to \$1,233, compared to \$2,835 in 2019, primarily due to lower income on insurance proceeds of \$1,787 and increase in foreign exchange loss of \$649, partially offset by an increase in gain on sale of hotel property of \$1,559.

INCOME TAXES

For the year ended December 31, 2020, the Company recorded an income tax recovery of \$69,734, compared to an income tax expense of \$36,695 in 2019. The increase in income tax recovery of \$106,429 comprises an increase of \$103,267 in deferred tax recovery and a decrease of \$3,162 in current tax expenses.

The decrease in current tax expenses for the year ended December 31, 2020 is primarily due to lower taxable income resulting from the impact of COVID-19, partially offset by CEWS received and taxable income from the disposition of an industrial property during the first quarter of 2020. The increase in deferred tax recovery for the year ended December 31, 2020, is primarily a result of fair value losses related to Canadian and U.S. properties compared to the fair value gains for the same period in 2019.

PENSION PLANS

The Company's accounting policy under IFRS is to recognize actuarial gains/losses in the period in which they occur, and these gains/losses are reflected in the consolidated statements of comprehensive income (loss). During the year ended December 31, 2020, an actuarial loss of \$27,897 was recorded in the consolidated statements of comprehensive income (loss), compared to an actuarial gain of \$9,825 for the year ended December 31, 2019.

FUNDS FROM OPERATIONS

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

	Three months ended		Year ended	
	December 31		December 31	
	2020	2019	2020	2019
Multi-suite residential	\$52,265	\$56,347	\$227,565	\$212,039
Retail	28,586	36,912	116,201	143,458
Office	33,053	35,062	131,836	136,480
Industrial	1,981	2,020	7,264	8,795
Hotel	233	11,055	8,377	55,554
Adjusted NOI⁽¹⁾	116,118	141,396	491,243	556,326
Other Revenue				
Management and advisory fees	10,460	14,410	42,080	52,401
Interest and other income	4,540	4,110	15,739	19,267
Equity-accounted FFO ⁽²⁾	1,303	383	5,145	3,932
	16,303	18,903	62,964	75,600
Expenses and Other				
Interest	(57,677)	(57,487)	(236,721)	(230,895)
Principal repayment of lease liabilities	(438)	(1,562)	(1,722)	(2,099)
Property management and corporate	(19,996)	(20,934)	(59,607)	(94,129)
Internal leasing costs	1,416	1,902	3,795	4,368
Amortization of capital assets	(842)	(1,066)	(3,467)	(4,058)
Current income taxes ⁽³⁾	1,816	(3,479)	(3,890)	(11,168)
Non-controlling interests' share of FFO ⁽⁴⁾	(13,936)	(18,477)	(56,985)	(69,987)
Unrealized changes in the fair value of financial instruments	18,808	5,041	(33,637)	25,174
Other income (expense)	650	(146)	(773)	1,739
FFO	\$62,222	\$64,091	\$161,200	\$250,871
FFO per common share amounts – basic and diluted	\$5.60	\$5.68	\$14.39	\$22.23
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	11,115	11,283	11,205	11,285

(1) For the three months and year ended December 31, 2020, an IFRIC 21 adjustment of \$11,082 (2019 - \$10,007) was added and \$nil (2019 - \$145), was deducted, respectively, from the IFRS presentation of realty tax expense.

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

(3) Current income taxes for the three months and year ended December 31, 2020, excludes \$nil (2019 - \$254) and \$4,370 (2019 - \$254), respectively, of income tax relating to the disposal of property.

(4) For the three months and year ended December 31, 2020, non-controlling share of FFO includes Morguard Residential REIT's non-controlling interest share of FFO in the amount of \$5,666 (2019 - \$6,521) and \$25,843 (2019 - \$23,363), respectively.

For the three months ended December 31, 2020, the Company recorded FFO of \$62,222 (\$5.60 per common share), compared to \$64,091 (\$5.68 per common share) in 2019. The decrease in FFO of \$1,869 is mainly due to the following:

- A decrease in Adjusted NOI of \$25,278, primarily due to lower Adjusted NOI from the hotel portfolio due to hotel closures and reduced occupancies from the impact of COVID-19. In addition, lower Adjusted NOI from the residential, retail, office and industrial portfolios was mainly due to higher bad debt expense, which was partially offset by the net impact of acquisitions and dispositions and a provision for CEWS;
- A decrease in management and advisory fees of \$3,950, primarily due to lower property management, asset management, leasing and disposition fees earned compared to 2019, partially offset by a provision for CEWS;
- A decrease in current income taxes of \$5,295;
- A decrease in the non-controlling interests' share of FFO of \$4,541; and
- An increase of \$13,767 in unrealized changes in the fair value of the Company's financial instruments.

The change in foreign exchange rate had a negative impact on FFO of \$229 (\$0.02 per common share).

For the year ended December 31, 2020, the Company recorded FFO of \$161,200 (\$14.39 per common share), compared to \$250,871 (\$22.23 per common share) in 2019. The decrease in FFO of \$89,671 is mainly due to the following:

- A decrease in Adjusted NOI of \$65,083, primarily due to lower Adjusted NOI from the hotel portfolio due to hotel closures and reduced occupancies from the impact of COVID-19. In addition, lower Adjusted NOI from the retail, office and industrial portfolios was mainly due to higher bad debt expense, which was partially offset by higher Adjusted NOI from the residential portfolio, the net impact of acquisitions and dispositions and a provision for CEWS;
- A decrease in management and advisory fee of \$10,321, primarily due to lower property management, asset management, leasing and disposition fees earned compared to 2019, partially offset by a provision for CEWS;
- A decrease in interest and other income of \$3,528, mainly due to lower income earned from investments;
- An increase in interest expense of \$5,826, mainly due to higher interest on Unsecured Debentures and amortization of deferred financing costs, partially offset by lower interest on convertible debentures, mortgages payable and loans payable;
- A decrease in property management and corporate expenses of \$34,522, primarily due to a decrease in non-cash compensation expense related to the Company's SARs plan, a provision for CEWS and other corporate expenses;
- A decrease in current income taxes of \$7,278;
- A decrease in the non-controlling interests' share of FFO of \$13,002; and
- A decrease of \$58,811 in unrealized changes in the fair value of the Company's financial instruments.

The change in foreign exchange rate had a positive impact on FFO of \$558 (\$0.05 per common share).

The Company believes it is useful to provide an analysis of Normalized FFO which excludes non-recurring items on a net of tax basis and other fair value adjustments excluded from REALpac's definition of FFO.

Normalized FFO	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
FFO (from above)	\$62,222	\$64,091	\$161,200	\$250,871
Add/(deduct):				
Unrealized changes in the fair value of financial instruments	(18,808)	(5,041)	33,637	(25,174)
SARs plan increase (decrease) in compensation expense	1,832	(1,968)	(12,161)	4,598
Insurance proceeds	—	—	—	(2,576)
Lease cancellation fee	(924)	(316)	(1,582)	(2,571)
	44,322	56,766	181,094	225,148
Tax effect	111	73	111	464
Normalized FFO	\$44,433	\$56,839	\$181,205	\$225,612
Per common share amounts – basic and diluted	\$4.00	\$5.04	\$16.17	\$19.99

Normalized FFO for the three months ended December 31, 2020, was \$44,433, or \$4.00 per common share, versus \$56,839, or \$5.04 per common share, for the same period in 2019, which represents a decrease of \$12,406, or 21.8%.

Normalized FFO for the year ended December 31, 2020, was \$181,205, or \$16.17 per common share, versus \$225,612, or \$19.99 per common share, for the same period in 2019, which represents a decrease of \$44,407, or 19.7%.

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

	Three months ended		Year ended	
	December 31		December 31	
	2020	2019	2020	2019
Net income (loss) attributable to common shareholders	(\$62,328)	\$84,911	(\$98,918)	\$186,939
Add/(deduct):				
Fair value loss on real estate properties, net ⁽¹⁾	149,299	28,167	519,961	3,245
Non-controlling interests' share of fair value loss on real estate properties, net	(45,081)	(12,234)	(181,598)	(31,901)
Fair value loss (gain) on Morguard Residential REIT Units	40,531	(37,997)	(70,996)	23,889
Distribution to Morguard Residential REIT's external Unitholders	5,434	5,375	21,727	19,608
Non-controlling interest - Morguard Residential REIT	(5,666)	(6,521)	(25,843)	(23,363)
Fair value loss (gain) on conversion option of MRG convertible debentures	767	(2,380)	(1,895)	1,003
Amortization of intangible asset	1,171	1,061	4,495	4,192
Amortization of hotel properties ⁽²⁾	7,122	9,350	28,390	30,357
Non-controlling interests' share of amortization of hotel properties	—	(1,386)	(676)	(5,908)
Foreign exchange loss (gain)	535	(2,732)	61	(588)
Deferred income taxes	(28,688)	4,487	(77,994)	25,273
Non-controlling interests' share of deferred income tax provision	—	—	—	(677)
Current tax on disposition of property	—	254	4,370	254
Principal repayment of lease liabilities	(438)	(1,562)	(1,722)	(2,099)
Internal leasing costs	1,416	1,902	3,795	4,368
Realty taxes accounted for under IFRIC 21 ⁽³⁾	(10,483)	(9,409)	—	145
Provision for impairment ⁽⁴⁾	8,631	3,864	40,110	22,923
Non-controlling interests' share of provision for impairment	—	(1,059)	—	(6,281)
Gain on sale of hotel property	—	—	(2,067)	(508)
FFO	\$62,222	\$64,091	\$161,200	\$250,871
FFO per common share – basic and diluted	\$5.60	\$5.68	\$14.39	\$22.23
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	11,115	11,283	11,205	11,285

(1) Includes fair value adjustments on real estate properties for equity-accounted investments.

(2) Includes amortization of hotel properties for equity-accounted investments.

(3) Realty taxes accounted for under IFRIC 21 exclude non-controlling interests' share.

(4) Includes impairment of hotel properties for equity-accounted investments.

PART IV

BALANCE SHEET ANALYSIS

REAL ESTATE PROPERTIES

The Company's real estate properties, together with hotel properties and equity-accounted and other real estate fund investments, represent approximately 94% of Morguard's total assets. Real estate properties include multi-suite residential, retail, office and industrial properties held to earn rental income and for capital appreciation. Real estate properties also include properties or land that is being constructed or developed for future use as income producing properties.

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

As at December 31	2020	2019
Real estate properties		
Multi-suite residential	\$4,937,059	\$4,838,483
Retail	2,243,942	2,702,613
Office	2,253,706	2,372,524
Industrial	133,512	160,555
	9,568,219	10,074,175
Properties under development	25,416	43,650
Land held for development	86,773	83,458
Real estate properties	\$9,680,408	\$10,201,283

Real estate properties decreased by \$520,875 at December 31, 2020, to \$9,680,408, compared to \$10,201,283 at December 31, 2019. The decrease is primarily the result of the following:

- A fair value loss on real estate properties of \$511,472;
- Capitalization of property enhancements, including capital expenditures and tenant improvements totalling \$57,563;
- Dispositions of real estate properties totalling \$45,377 as a result of the following asset sales:

Property	Date of Disposition	Asset Type	Sq. Ft.	Net Proceeds
7474 McLean (50%)	March 25, 2020	Industrial	284,000	\$38,577
Home Base	August 18, 2020	Retail	10,000	6,800
				\$45,377

- Development expenditures of \$29,656; and
- A decrease of \$57,235 due to the change in the U.S. dollar foreign exchange rate.

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

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

As at December 31, 2020, the duration and impact of the COVID-19 pandemic is unknown. The impact of COVID-19 on estimating fair values for the Company's properties at December 31, 2020, required judgment based on evolving facts and available information, particularly for the retail properties, which have experienced significantly lower collections and higher tenant failure rates. During the year ended December 31, 2020, the Company recorded a fair

value loss relating to its retail properties of \$477,299, predominantly due to an increase in capitalization rates at most of the Company's enclosed malls as well as assumptions related to occupancy, leasing and rental rates. In addition, it is not possible to estimate the long-term impacts COVID-19 will have on the Company's valuation of income producing properties as the length and severity of these developments are subject to significant uncertainty.

As at December 31, 2020, using the direct capitalization approach, the multi-suite residential, retail, office and industrial properties were valued using capitalization rates in the range of 3.3% to 9.8% (2019 - 3.5% to 8.5%), resulting in an overall weighted average capitalization rate of 5.4% (2019 - 5.5%).

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

As at	December 31, 2020					December 31, 2019				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	98.0%	92.0%	6.8%	3.3%	4.3%	98.0%	92.0%	6.8%	3.5%	4.5%
Retail	99.0%	85.0%	9.8%	5.3%	6.9%	100.0%	85.0%	8.5%	5.3%	6.5%
Office	100.0%	90.0%	8.5%	4.3%	6.2%	100.0%	90.0%	8.5%	4.3%	6.1%
Industrial	100.0%	95.0%	6.8%	4.8%	5.3%	100.0%	95.0%	6.8%	5.0%	5.2%

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

As at	December 31, 2020			December 31, 2019		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Retail						
Discount rate	10.5%	6.0%	7.3%	9.3%	6.0%	7.0%
Terminal cap rate	9.5%	5.3%	6.2%	8.5%	5.3%	5.9%
Office						
Discount rate	8.0%	5.3%	6.4%	8.0%	5.3%	6.5%
Terminal cap rate	7.5%	4.3%	5.7%	7.3%	4.3%	5.7%
Industrial						
Discount rate	6.5%	6.0%	6.1%	6.5%	6.0%	6.1%
Terminal cap rate	6.0%	5.0%	5.4%	6.0%	5.0%	5.4%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate.

The sensitivity of the fair values of the Company's income producing properties as at December 31, 2020, and 2019, is set out in the table below:

As at	December 31, 2020		December 31, 2019	
Change in capitalization rate:	0.25%	(0.25%)	0.25%	(0.25%)
Multi-suite residential	(\$255,541)	\$285,352	(\$246,954)	\$275,369
Retail	(70,078)	75,329	(89,687)	96,807
Office	(88,986)	96,443	(89,194)	96,766
Industrial	(5,988)	6,578	(6,944)	7,649
	(\$420,593)	\$463,702	(\$432,779)	\$476,591

HOTEL PROPERTIES

Hotel properties consist of the following:

As at December 31	2020	2019
Cost	\$761,016	\$800,838
Accumulated impairment provision	(100,659)	(77,181)
Accumulated amortization	(115,316)	(94,874)
Hotel properties	\$545,041	\$628,783

On July 6, 2020, the Company sold a hotel located in Sydney, Nova Scotia, for gross proceeds of \$10,763 (including a promissory note receivable of \$500), resulting in aggregate net cash proceeds of \$2,973 after deducting the repayment of first mortgage loan of \$6,666 and working capital adjustments. On disposition the recoverable amount exceeded the carrying value of the property of \$8,072, resulting in a gain of \$2,067, including closing costs.

On November 2, 2020, the Company sold a hotel located in Red Deer, Alberta, for gross proceeds of \$18,533 (including a promissory note receivable of \$14,500), resulting in aggregate net cash proceeds of \$3,938 after deducting working capital adjustments. On disposition the carrying value of the property of \$19,011 exceeded the recoverable amount including closing costs, resulting in a provision for impairment of \$573.

During the year ended December 31, 2020, impairment indicators were identified including interruptions to business operations at certain hotel properties resulting from emergency measures enacted to combat COVID-19. Since March 2020, at the onset of the outbreak of the COVID-19 pandemic, 21 of the Company's hotel properties were subject to temporary closure of which three remain closed. A recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of \$37,041 should be recorded.

The table below provide details of first year net operating income (loss) and the discount rates used for valuing the hotel properties.

	Northwest Territories	Alberta	Saskatchewan	Ontario	Nova Scotia
Recoverable amount	\$8,800	\$60,700	\$51,500	\$38,850	\$69,800
Impairment provision	\$1,550	\$15,521	\$8,407	\$4,024	\$6,966
Cumulative impairment provision	\$1,550	\$48,088	\$35,937	\$4,024	\$6,966
Projected first year net operating loss	(\$248)	(\$2,846)	(\$2,097)	(\$1,172)	(\$830)
Discount rate (range)	9.3%	9.3% - 12.8%	9.8% - 10.8%	7.3% - 8.8%	9.3% - 9.8%

EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at December 31	2020	2019
Joint ventures	\$44,474	\$53,118
Associates	83,105	85,835
Equity-accounted investments	127,579	138,953
Other real estate fund investments	88,699	109,712
Equity-accounted and other fund investments	\$216,278	\$248,665

The following are the Company's significant equity-accounted investments as at December 31, 2020, and 2019:

Property/Investment	Principal Place of Business	Investment Type	Asset Type	Company's Ownership		Carrying Value	
				December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	50.0%	50.0%	\$20,496	\$23,705
Quinte Courthouse	Belleville, ON	Joint Venture	Office	50.0%	50.0%	2,896	2,994
Greypoint Capital L.P. ⁽¹⁾	Toronto, ON	Joint Venture	Other	22.4%	22.6%	10,064	12,028
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	50.0%	50.0%	7,295	9,595
Marriott Residence Inn	London, ON	Joint Venture	Hotel	50.0%	50.0%	3,723	4,796
Sunset & Gordon	Los Angeles, CA	Associate	Residential	59.1%	59.1%	64,180	63,803
MIL Industrial Fund II LP ⁽²⁾⁽³⁾	Various	Associate	Industrial	18.8%	18.8%	18,925	22,032
						\$127,579	\$138,953

⁽¹⁾ Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.

⁽²⁾ The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

⁽³⁾ The fund disposed of its 50% interest in one industrial property on March 25, 2020, for net proceeds of \$28,079.

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

As at December 31	2020	2019
Balance, beginning of year	\$138,953	\$177,480
Additions	15,532	64,914
Transfer ⁽¹⁾	—	(63,504)
Share of net loss	(7,470)	(28,825)
Distributions received	(18,115)	(6,778)
Foreign exchange loss	(1,321)	(4,334)
Balance, end of year	\$127,579	\$138,953

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

MORTGAGES PAYABLE

Mortgages payable totalled \$4,269,374 at December 31, 2020, compared to \$4,365,279 at December 31, 2019, a decrease of \$95,905. The decrease was predominantly due to repayment of mortgages discharged and matured of \$397,462, scheduled principal repayments of \$111,140 and a decrease of \$31,563 from the change in the foreign exchange rate, partially offset by net proceeds from new financing of \$443,160.

MORTGAGE CONTINUITY SCHEDULE

As at December 31	2020	2019
Opening mortgage balance	\$4,365,279	\$4,362,701
New mortgage financing	446,157	475,981
New mortgage financing costs	(2,997)	(3,275)
Mortgages discharged and matured	(397,462)	(401,044)
Scheduled principal repayments	(111,140)	(110,771)
Transfer of mortgage from equity-accounted investment	—	109,189
Change in foreign exchange rate	(31,563)	(66,678)
Mortgages mark-to-market adjustment, net	(4,552)	(5,501)
Deferred financing costs (including extinguishment)	5,652	4,677
Closing mortgage balance	\$4,269,374	\$4,365,279

The Company's first mortgages are registered against specific real estate assets and hotel properties. As at December 31, 2020, mortgages payable bear interest at rates ranging between 2.03% and 7.08% per annum with a weighted average interest rate of 3.58% (2019 - 3.80%), mature between 2021 and 2058 with a weighted average term to maturity of 4.8 years (2019 - 5.1 years) and approximately 98% of the Company's mortgages have fixed interest rates.

MORTGAGE REPAYMENT SCHEDULE

As at December 31, 2020	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2021	\$114,834	\$481,640	\$596,474	4.21%
2022	110,914	396,008	506,922	3.52%
2023	88,802	635,657	724,459	3.57%
2024	75,806	394,970	470,776	3.60%
2025	60,955	393,586	454,541	3.30%
Thereafter	159,728	1,369,187	1,528,915	3.49%
	\$611,039	\$3,671,048	4,282,087	3.58%
Mark-to-market adjustment, net			7,396	
Deferred financing costs			(20,109)	
			\$4,269,374	

Some of the Company's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at December 31, 2020, the Company was not in compliance with three (2019 - four) debt ratio covenants affecting four (2019 - five) mortgage loans, all of which are secured by hotel properties amounting to \$102,081 (2019 - \$80,877). None of the lenders have demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes \$45,073 scheduled to retire after December 31, 2021.

MORTGAGE MATURITY SCHEDULE

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

Asset Type	Number of Properties	Principal Maturing	2021		2022			
			Weighted Average Interest Rate	Maturing Loan-to-Value Ratio	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Maturing Loan-to-Value Ratio
Multi-suite residential	4	\$75,280	3.97%	23.2%	6	\$113,946	3.42%	38.9%
Retail	5	197,380	4.37%	34.5%	3	121,906	3.06%	49.5%
Office	4	79,414	3.49%	33.0%	2	158,766	3.93%	75.1%
Hotels ⁽¹⁾	5	83,699	4.25%	59.8%	2	11,488	4.66%	84.0%
	18	\$435,773	4.00%	34.1%	13	\$406,106	3.55%	53.1%

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

The following table details the new and refinancing activities completed during the year ended December 31, 2020:

Date	Asset Type	Location	New Interest Rate	Maturing Interest Rate	Term (years)	Mortgage Amount
January 15, 2020	Office	Mississauga, ON	3.53%	—%	7.0	\$100,000
September 1, 2020	Office	Ottawa, ON	2.70%	4.27%	5.1	23,500
September 1, 2020	Office	Toronto, ON	3.05%	4.96%	10.0	76,000
October 9, 2020	Office	Saint-Laurent, QC	2.89%	5.48%	4.1	80,000
May 1, 2020	Residential	Boynton Beach, FL	3.08%	—%	10.0	36,976
June 3, 2020	Residential	Mississauga, ON	2.03%	4.25%	10.0	25,151
October 1, 2020	Residential	Lake Worth, FL	2.17%	4.24%	10.0	35,895
July 8, 2020	Retail	Calgary, AB	3.25%	3.89%	5.1	19,000
November 1, 2020	Retail	Saskatoon, SK	3.25%	4.75%	5.0	3,665
December 23, 2020	Retail	Aurora, ON	2.88%	4.07%	5.0	43,500
Weighted Averages and Total			2.98%	4.71%	7.3	\$443,687

During the year ended December 31, 2020, the Company received deferrals of principal and interest payments at most of its hotel properties of which \$2,470 have been capitalized to the mortgage balance.

The following table details the mortgages repaid at maturity and extinguished prior to maturity during the year ended December 31, 2020:

Date	Asset Type	Location	Mortgage Amount
January 15, 2020	Office	Mississauga, ON	\$20,661
September 1, 2020	Office	Ottawa, ON	18,372
September 1, 2020	Office	Toronto, ON	14,741
October 9, 2020	Office	Saint-Laurent, QC	65,475
March 25, 2020	Industrial	Puslinch, ON	10,498
February 18, 2020	Hotel	Fort McMurray, AB	9,009
February 18, 2020	Hotel	Fort McMurray, AB	4,146
February 19, 2020	Hotel	Yellowknife, NT	14,498
February 19, 2020	Hotel	Mississauga, ON	13,341
February 19, 2020	Hotel	Winnipeg, MB	7,713
February 21, 2020	Hotel	Lloydminster, AB	1,675
February 21, 2020	Hotel	Fort McMurray, AB	4,176
February 21, 2020	Hotel	Saskatoon, SK	20,298
February 21, 2020	Hotel	Red Deer, AB	23,688
March 1, 2020	Hotel	Fort McMurray, AB	13,230
July 6, 2020	Hotel	Sydney, NS	6,666
November 30, 2020	Hotel	GTA (portfolio of 9 hotels)	68,709
June 3, 2020	Residential	Mississauga, ON	8,757
October 1, 2020	Residential	Lake Worth, FL	23,842
July 8, 2020	Retail	Calgary, AB	15,864
November 1, 2020	Retail	Saskatoon, SK	3,665
December 23, 2020	Retail	Aurora, ON	28,438
Total			\$397,462

UNSECURED DEBENTURES

The Company's Unsecured Debentures consist of the following:

As at December 31	Maturity Date	Coupon	2020	2019
		Interest Rate		
Series B senior unsecured debentures	November 18, 2020	4.013%	\$—	\$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	200,000	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	200,000	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	225,000	225,000
Series F senior unsecured debentures	November 27, 2024	4.204%	225,000	225,000
Series G senior unsecured debentures	September 28, 2023	4.402%	175,000	—
Unamortized financing costs			(2,848)	(3,556)
			\$1,022,152	\$1,046,444

On November 18, 2016, the Company issued \$200,000 (net proceeds including issuance costs - \$199,198) of Series B senior unsecured debentures due on November 18, 2020. Interest on the Series B senior unsecured debentures is payable semi-annually, not in advance, on May 18 and November 18 of each year. On November 18, 2020, the Series B unsecured debentures were fully repaid on maturity.

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

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

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

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

On September 28, 2020, the Company issued \$175,000 (net proceeds including issuance costs - \$174,303) of Series G senior unsecured debentures due on September 28, 2023. Interest on the Series G senior unsecured debentures is payable semi-annually, not in advance, on March 28 and September 28 of each year, commencing on March 28, 2021. The Company has the option to redeem the Series G senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 1.03%.

For the year ended December 31, 2020, interest on the Unsecured Debentures of \$45,964 (2019 - \$35,651) is included in interest expense.

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

The Company must maintain an interest coverage ratio computed on a Non-Consolidated Basis above 1.65 times, an indebtedness to aggregate assets ratio computed on a Non-Consolidated Basis not to exceed 65% and a minimum equity requirement computed on a Non-Consolidated Basis of at least \$300,000. If the Company does not meet these covenants, the Unsecured Debentures will become immediately due and payable unless the Company is able to remedy the default or obtain a waiver from lenders.

Non-Consolidated Basis adjustments include the following:

- An adjustment (as defined in the Indenture) to account for the Company's Public Entity Investments using the equity method of accounting. The adjustment requires the Public Entity Investments which are consolidated under IFRS to each respective financial statement line presented within the balance sheet and statement of income (loss) to be presented on a single line within equity-accounted investments;

- An adjustment (as defined in the Indenture) to the balance sheet to exclude deferred tax assets and liabilities, goodwill and to add back accumulated amortization of hotel properties;
- An adjustment (as defined in the Indenture) to the statement of income (loss) to exclude other non-cash items (such as the Company's SARs expense, IFRIC 21 and any gain or loss attributed to the sale or disposition of any asset or liability), non-recurring items (such as acquisition-related costs and debt settlement or other costs), and to include the distributions received from Morguard REIT and Morguard Residential REIT.

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

Non-Consolidated Basis	Covenant Requirements	December 31, 2020	December 31, 2019
Interest coverage ratio ⁽¹⁾		1.65	2.06
Indebtedness to aggregate assets ratio ⁽²⁾	Less than or equal to 65%	47.6%	43.8%
Adjusted shareholders' equity ⁽³⁾	Not less than \$300,000	\$3,393,846	\$3,707,655

(1) Calculated on a trailing twelve-month basis.

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

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

As at December 31, 2020, on a Non-Consolidated Basis, the Company's unencumbered assets which include real estate and hotel properties, and other investments amounted to \$1,026,000 (2019 - \$1,042,000).

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

MORGUARD NON-CONSOLIDATED FINANCIAL STATEMENTS BALANCE SHEET

As at December 31					2020	2019
	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Adjustments	Morguard Non-Consolidated Basis	Morguard Non-Consolidated Basis
ASSETS						
Real estate properties	\$9,680,408	(\$2,499,955)	(\$2,941,241)	(\$238,134)	\$4,001,078	\$4,182,295
Hotel properties	545,041	—	—	115,316	660,357	236,411
Equity-accounted and other fund investments	216,278	(20,496)	(93,005)	1,305,406	1,408,183	1,652,079
Investment in Class C LP Units	—	—	—	83,944	83,944	86,998
Other assets	610,961	(37,282)	(50,112)	30,124	553,691	649,713
Total assets	\$11,052,688	(\$2,557,733)	(\$3,084,358)	\$1,296,656	\$6,707,253	\$6,807,496
LIABILITIES						
Mortgage payable and Class C LP Units	\$4,269,374	(\$1,122,720)	(\$1,209,425)	(\$71,536)	\$1,865,693	\$1,707,274
Construction financing, loans and bank indebtedness	176,802	(47,417)	(6,600)	24,600	147,385	69,621
Class B LP Units	—	—	(274,708)	274,708	—	—
Debentures payable	1,216,474	(172,805)	(85,165)	63,648	1,022,152	1,046,444
Lease Liabilities	164,255	(10,993)	(9,103)	258	144,417	144,701
Morguard Residential REIT Units	446,091	—	—	(446,091)	—	—
Deferred income tax liabilities	648,225	—	(109,659)	(538,566)	—	—
Accounts payable and accrued liabilities	218,769	(46,140)	(42,079)	3,210	133,760	131,801
Total liabilities	7,139,990	(1,400,075)	(1,736,739)	(689,769)	3,313,407	3,099,841
Equity / Adjusted shareholders' equity	3,912,698	(1,157,658)	(1,347,619)	1,986,425	3,393,846	3,707,655
Total liabilities and equity	\$11,052,688	(\$2,557,733)	(\$3,084,358)	\$1,296,656	\$6,707,253	\$6,807,496

COMPUTATION FOR INTEREST COVERAGE RATIO

Year ended December 31					2020	2019	
	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis	Morguard Non-Consolidated Basis
Revenue from real estate properties	\$888,324	(\$253,764)	(\$248,683)	\$—	(\$19,430)	\$366,447	\$345,926
Revenue from hotel properties	98,046	—	—	(18,206)	—	79,840	89,526
Property operating expenses	(405,458)	129,986	113,150	—	(2,922)	(165,244)	(145,445)
Hotel operating expenses	(89,669)	—	—	15,828	—	(73,841)	(67,120)
Net operating income	491,243	(123,778)	(135,533)	(2,378)	(22,352)	207,202	222,887
Management and advisory fees and distributions	42,080	—	—	—	33,898	75,978	100,193
Interest and other income	15,739	—	(431)	(30)	9,142	24,420	24,007
Property management and corporate ⁽¹⁾	(59,607)	3,587	15,237	(370)	(31,010)	(72,163)	(86,460)
Other income (expense) ⁽²⁾	(773)	—	—	—	—	(773)	(48)
Distributions from Morguard REIT and Morguard Residential REIT	—	—	—	—	41,075	41,075	50,425
EBITDA	\$488,682	(\$120,191)	(\$120,727)	(\$2,778)	\$30,753	\$275,739	\$311,004
Interest expense	\$236,721	(\$56,376)	(\$62,111)	(\$2,400)	\$18,111	\$133,945	\$114,641
Interest capitalized to development projects	697	(697)	—	—	—	—	—
Interest expense for interest coverage ratio	\$237,418	(\$57,073)	(\$62,111)	(\$2,400)	\$18,111	\$133,945	\$114,641

(1) Morguard consolidated property management and corporate expense for the year ended December 31, 2020, includes a non-cash fair value adjustment relating to the Company's SARs liability and has been adjusted to add back the decrease in SARs expense of \$12,161.

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

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at December 31	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	2020	2019
Morguard REIT	December 31, 2021	\$20.40	4.50%	\$175,000	\$60,000	\$114,157	\$112,105
Morguard Residential REIT ⁽¹⁾	March 31, 2023	\$20.20	4.50%	\$85,500	\$5,000	80,165	81,398
						\$194,322	\$193,503

(1) As at December 31, 2020, the liability includes the fair value of the conversion option of \$1,577 (December 31, 2019 - \$3,472).

MORGUARD REIT

On December 30, 2016, Morguard REIT issued \$175,000 principal amount of 4.50% convertible unsecured subordinated debentures and incurred issue costs of \$5,137 for net proceeds of \$169,863. Interest is payable semi-annually, not in advance, on June 30 and December 31 of each year. The convertible debentures, with the exception of \$3,242, the value assigned to the holder's conversion option, have been recorded as debt on the consolidated balance sheets. Morguard owns \$60,000 aggregate principal amount of the 4.50% convertible unsecured subordinated debentures.

MORGUARD RESIDENTIAL REIT

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

For the year ended December 31, 2020, interest on convertible debentures net of accretion of \$9,797 (2019 - \$12,089) is included in interest expense.

MORGUARD RESIDENTIAL REIT UNITS

As at December 31, 2020, the Company owned a 44.7% (2019 - 44.8%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units. Although the Company owns less than 50% of Morguard Residential REIT, it continues to consolidate its investment on the basis of *de facto* control.

The non-controlling interest in Morguard Residential REIT Units has been presented as a liability. Morguard Residential REIT Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Morguard Residential REIT, all rights to and under the Units tendered for redemption shall be surrendered, and the holder shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the market price of the Units on the principal exchange market on which the Units are listed or quoted for trading during the 10 consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; or (ii) 100% of the closing market price on the principal exchange market on which the Units are listed or quoted for trading on the redemption date.

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

As at December 31, 2020, the Company valued the non-controlling interest in Morguard Residential REIT Units at \$446,091 (2019 - \$516,462) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value gain for the year ended December 31, 2020 of \$49,269 (2019 - loss of \$43,497), in the consolidated statements of income (loss).

BANK INDEBTEDNESS

As at December 31, 2020, the Company has operating lines of credit totalling \$593,500 (2019 - \$374,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at December 31, 2020, the maximum amount that can be borrowed on the operating lines of credit is \$578,554 (2019 - \$356,169), which includes deducting issued letters of credit in the amount of \$8,742 (2019 - \$13,790) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at December 31, 2020, the Company had borrowed \$156,802 (2019 - \$101,100) on its operating lines of credit.

During the year ended December 31, 2020, the Company amended bank credit agreements under its existing credit facilities to provide for an additional availability of \$142,500 (of which \$100,000 expires during the second quarter of 2021) and where applicable to allow for a higher margin calculation. In addition, the Company entered into a revolving credit facility allowing a maximum of \$77,000 which can be borrowed and is secured by specific hotel properties.

The bank credit agreements include certain restrictive undertakings by the Company. As at December 31, 2020, other than as described above, the Company is in compliance with all undertakings.

LEASE LIABILITIES

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

As at December 31	2020	2019
Balance, beginning of year	\$166,144	\$9,754
Adoption of IFRS 16	—	161,614
Interest on lease liabilities	9,440	9,679
Payments	(11,162)	(11,778)
Additions	—	725
Dispositions	—	(684)
Extinguishment ⁽¹⁾	—	(2,664)
Foreign exchange gain	(167)	(502)
Balance, end of year	\$164,255	\$166,144

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

Future minimum lease payments under lease liabilities are as follows:

As at December 31	2020	2019
Within 12 months	\$11,120	\$11,127
2 to 5 years	42,585	43,335
Over 5 years	353,577	364,195
Total minimum lease payments	407,282	418,657
Less: future interest costs	(243,027)	(252,513)
Present value of minimum lease payments	\$164,255	\$166,144

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the Company's financial liabilities for upcoming periods as at December 31, 2020, are as follows:

As at December 31, 2020	2021	2022	2023	2024	2025	Thereafter	Total
Mortgages payable	\$596,474	\$506,922	\$724,459	\$470,776	\$454,541	\$1,528,915	\$4,282,087
Mortgage interest	141,012	123,267	102,221	76,857	62,141	167,119	672,617
Debentures payable	315,000	200,000	255,500	450,000	—	—	1,220,500
Interest on debentures	48,278	37,983	26,418	9,555	—	—	122,234
Loans payable	20,000	—	—	—	—	—	20,000
Bank indebtedness	156,802	—	—	—	—	—	156,802
Accounts payable and accrued liabilities	218,769	—	—	—	—	—	218,769
Lease liability (including interest)	11,120	10,917	10,617	10,585	10,466	353,577	407,282
	\$1,507,455	\$879,089	\$1,119,215	\$1,017,773	\$527,148	\$2,049,611	\$7,100,291

EQUITY

Total equity decreased by \$393,019 to \$3,912,698 at December 31, 2020, compared to \$4,305,717 at December 31, 2019.

The decrease in equity was primarily the result of:

- Net loss for the year ended December 31, 2020 of \$250,050;
- Change in ownership of Temple Hotels Inc. of \$44,149;
- An actuarial loss on defined benefit pension plans of \$27,897;
- Repurchase of common shares through the Company's NCIB (defined below) amounting to \$22,549;
- Non-controlling interest distributions of \$18,102;
- Dividends paid of \$6,714; and
- Unrealized foreign currency translation loss of \$26,453.

During the year ended December 31, 2020, 174,331 common shares were repurchased through the Company's normal course issuer bid ("NCIB") for cash consideration of \$22,549.

As at December 31, 2020, 11,109,012 common shares were outstanding. As at February 25, 2021, 11,100,142 common shares were outstanding.

PART V

LIQUIDITY

Morguard uses a combination of existing cash, cash generated from operations, mortgages, bank indebtedness, project-specific financing and equity to finance its activities. For the year ended December 31, 2020, Morguard received approximately \$49,737 in recurring distributions and dividends from subsidiaries and affiliated entities.

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

YEAR ENDED DECEMBER 31, 2020

Cash Provided by Operating Activities

Cash provided by operating activities during the year ended December 31, 2020, was \$211,937, compared to \$282,414 in 2019. The cash provided by operating activities has been used to meet the Company's liquidity requirements, which consisted primarily of property re-leasing costs, maintenance costs and dividends to shareholders.

Cash Used in Investing Activities

Cash used in investing activities during the year ended December 31, 2020, totalled \$68,092, compared to cash used in investing activities of \$561,756 in 2019. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of \$52,635;
- Additions to hotel properties of \$7,142;
- Additions to capital and intangible assets of \$2,141;
- Net proceeds from the sale of real estate properties of \$34,879;
- Net proceeds from the sale of hotel properties of \$6,911;
- Investment in properties under development of \$29,656; and
- Net investment in equity-accounted and other fund investments of \$18,308.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities during the year ended December 31, 2020, totalled \$122,847, compared to cash provided by financing activities of \$294,513 in 2019. The cash used in financing activities reflects:

- Proceeds from new mortgages, net financing cost of \$443,160;
- Repayment of mortgages on maturity of \$268,524;
- Repayment of mortgages due to extinguishments of \$111,774;
- Mortgage principal repayments of \$111,140;
- Principal payment of lease liabilities of \$1,722;
- Net proceeds from bank indebtedness of \$55,702;
- Proceeds from issuance of debentures payable, net of costs of \$174,303;
- Redemption of debentures payable of \$200,000;
- Net repayment of loans payable of \$15,234;
- Dividends paid of \$6,615;
- Distributions to non-controlling interest of \$17,475;
- Common shares repurchased for cancellation of \$22,549;
- Investment in subsidiaries of \$45,102; and
- Decrease in restricted cash of \$4,123.

PART VI

TRANSACTIONS WITH RELATED PARTIES

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

PAROS ENTERPRISES LIMITED

Paros is the majority shareholder and ultimate parent of the Company. Paros is owned by the Company's Chairman and Chief Executive Officer, Mr. K. Rai Sahi. On January 25, 2019, Paros acquired \$12,500 aggregate principal amount of the Company's Series E unsecured debentures. The Company entered into a demand loan agreement with Paros that provides for the Company to borrow up to \$22,000. The total loan payable outstanding from Paros as at December 31, 2020, and 2019 was \$nil. During the year ended December 31, 2020, the Company incurred net interest expense of \$nil (2019 - \$71).

TWC ENTERPRISES LIMITED

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the year ended December 31, 2020, the Company received a management fee of \$1,311 (2019 - \$1,305), and paid rent and operating expenses of \$661 (2019 - \$730).

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to \$50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at December 31, 2020 was \$20,000 (2019 - \$33,679). During the year ended December 31, 2020, the Company paid net interest of \$452 (2019 - \$1,489).

SHARE/UNIT PURCHASE AND OTHER LOANS

As at December 31, 2020, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of \$5,502 (2019 - \$5,504) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable on the consolidated balance sheets. As at December 31, 2020, the fair market value of the common shares/Units held as collateral is \$58,758.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements for the years ended December 31, 2020 and 2019, have been prepared in accordance with IFRS. A summary of the significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2020.

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

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

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

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

At this time, the duration and impact of the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19" is unknown as is the effectiveness of the government and central bank interventions. Any estimate of the length and severity of these measures are therefore subject to significant uncertainty and accordingly, estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty. Management believes it is currently not possible to estimate the long-term impacts the outbreak of COVID-19 will have in determining estimates of fair market value for the Company's real estate and hotel properties, investments in joint arrangements and the valuation of financial instruments. In a long-term scenario, the significant assumptions used in the assessment of fair value and impairment, including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount and capitalization rate and stabilized net operating income, could potentially be impacted, which ultimately impact the underlying valuation of the Company's real estate properties and equity-accounted investments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

De Facto Control

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

Real Estate Properties

Real estate properties include multi-suite residential, retail, office, industrial and hotel properties held to earn rental income and for capital appreciation and properties or land that are being constructed or developed for future use as income producing properties. Real estate properties, with the exception of hotel properties, are recorded at fair value, determined based on available market evidence, at the balance sheet date. The Company determined the fair value of each real estate property based upon, among other things, rental income from current leases and assumptions about rental income from future leases, reflecting market conditions at the applicable balance sheet dates, less future cash outflow pertaining to the respective leases. The residential properties are appraised using the direct capitalization income method. The retail, office and industrial properties are appraised using a number of approaches that typically include a discounted cash flow analysis and a direct comparison approach. The discounted cash flow analysis is primarily based on discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. To assist with the evaluation of fair value, the Company has its Canadian properties appraised by Morguard's appraisal division. Morguard's appraisal division is staffed with accredited members of the AIC who, collectively, in 2020 valued approximately \$14 billion of real estate properties in Canada and the U.S. for institutional and corporate clients.

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

Business Combinations

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

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

Joint Arrangements

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

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

Income Taxes

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

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

Revenue Recognition

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

Fair Value of Financial Instruments

Management reports on a quarterly basis the fair value of financial instruments. The fair value of financial instruments approximates amounts at which these instruments could be exchanged between knowledgeable and willing parties. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. Management estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using December 31, 2020, market rates for debts of similar terms.

FINANCIAL INSTRUMENTS

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

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

Financial assets must be classified and measured on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and FVTPL. Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Fair values of financial assets and financial liabilities are presented as follows:

Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2020, market rates for debts of similar terms. Based on these assumptions, the fair value as at December 31, 2020, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at \$4,552,081 (2019 - \$4,406,348), compared with the carrying value of \$4,282,087 (2019 - \$4,375,947). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price. As at December 31, 2020, the fair value of the Unsecured Debentures has been estimated at \$1,039,322 (2019 - \$1,070,033) compared with the carrying value of \$1,025,000 (2019 - \$1,050,000).

The fair value of the convertible debentures liability is based on their market trading prices. As at December 31, 2020, the fair value of the convertible debentures before deferred financing costs has been estimated at \$196,539 (2019 - \$202,838), compared with the carrying value of \$195,500 (2019 - \$195,500).

The fair value of the finance lease receivable is determined by discounting the cash flows of the financial receivable using December 31, 2020, market rates for debt on similar terms. Based on these assumptions, as at December 31, 2020, the fair value of the finance lease receivable has been estimated at \$57,185 (2019 - \$56,574).

RISKS AND UNCERTAINTIES

An investment in securities of the Company involves significant risks. Investors should consider carefully the risks described below, the other information described elsewhere in this MD&A (as updated by any subsequent interim MD&A) and those risks set out in the Company's Annual Information Form ("AIF") for the year ended December 31, 2020, dated February 25, 2021, before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely affected. In that case, the trading price of securities of the Company could decline, and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

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

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

COVID-19 AND OTHER PANDEMIC OR EPIDEMIC

The ongoing COVID-19 pandemic has led to prolonged voluntary and mandatory building closures, business closures, government restrictions on travel, movement and gatherings, quarantines, curfews, self-isolation and physical distancing. The impact of these measures has led to a general shutdown of economic activity and has disrupted workforce and business operations both in North America and other parts of the world. Such occurrences could have a material adverse effect on the demand for real estate, the ability of tenants to pay rent and the debt and equity capital markets. The duration and impact of the ongoing 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 Company's business and operations, real estate and hotel property valuations, securities, cash flows, results of operations and the Company's ability to obtain additional financing or re-financing and ability to make distributions to shareholders.

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

- (a) material reduction in rental revenue and related collections due to associated financial hardship, unemployment and non-essential business orders governing the complete or partial closure of certain businesses;
- (b) a material increase in vacancy potentially caused by the resulting economic crisis, changes in consumer demand for businesses' products and services, changes in businesses' real estate requirements, restrictions on travel and demand for hotels and the inability of businesses to operate in the normal course or at all;
- (c) uncertainty of real estate and hotel valuations resulting from the impact of potential decline in revenue and/or lack of market activity and demand;
- (d) the negative impact on Canadian and global debt and equity capital markets, including both pricing and availability;
- (e) ability to access capital markets at a reasonable cost;
- (f) the trading price of the Company's securities;
- (g) the impact of additional legislation, regulation, fiscal and monetary policy responses and other government interventions;
- (h) uncertainty delivering services due to illness, Company or government-imposed isolation programs, restrictions on the movement of personnel, closures and supply chain disruptions;
- (i) uncertainty associated with costs, delays and availability of resources required to complete major maintenance and expansion projects on time and budget, and lease-up space following completion of development projects;
- (j) 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;
- (k) adverse impacts on the creditworthiness of tenants and other counterparties; and
- (l) increased risk of cyber attacks due to remote working environments and increased reliance on information technology infrastructure.

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

Developments since March 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. We remain focused on delivering our key business operations.

Other outbreaks of pandemics and epidemics may have similar impacts on our business, operations, financial condition and ability to make distributions to shareholders.

OPERATING RISK

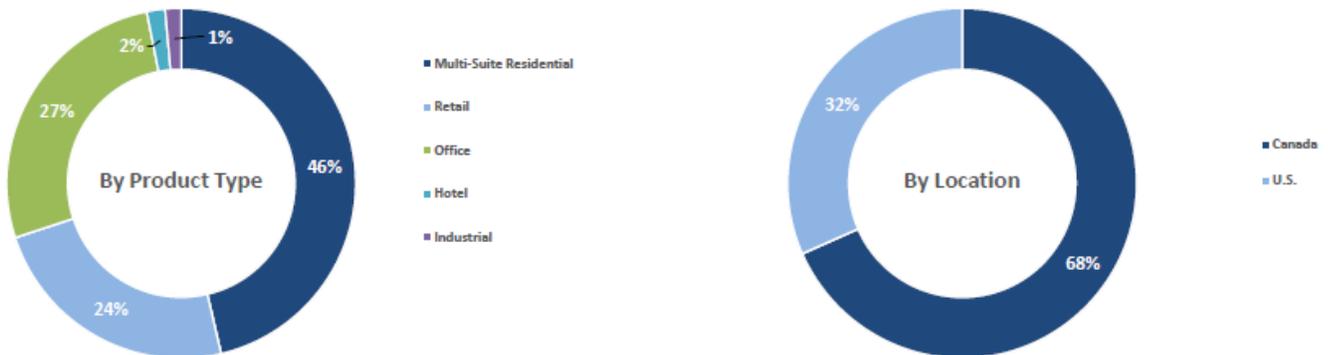
Real estate has a high fixed cost associated with ownership, and income lost due to vacancies cannot easily be minimized through cost reduction. Tenant retention is critical to maintaining occupancy levels. The ongoing COVID-19 pandemic and changing economic conditions may adversely impact tenant retention. Through well-located and professionally managed properties, management seeks to increase tenant loyalty and become the landlord of choice. Morguard reduces operating risk through diversification. The Company diversifies its portfolio by tenants, lease maturities, product and location.

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

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

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

The portfolio diversification is shown by percentage of NOI for the year ended December 31, 2020:



REPORTING INVESTMENT PROPERTY AT FAIR VALUE

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

There is a risk that general declines in real estate markets or sales of assets by the Company under financial or other hardship, including as a result of changes in demand for real estate resulting from COVID-19 and related economic conditions, would have an impact on the fair values reported or on the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect the Company's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the Company's operating revenues and cash flows, as well as the fair values of the investment properties.

FINANCING RISK

The Company is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities secured by the Company's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. The COVID-19 pandemic and related economic and market conditions may adversely impact credit and capital markets. To minimize this risk, Morguard has structured its debt maturities over a number of years and has negotiated fixed interest rates on approximately 98% of its total indebtedness.

FOREIGN EXCHANGE RISK

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

As at December 31, 2020, the Canadian dollar value was US\$0.79 compared to US\$0.77 a year earlier. The average exchange rate for the year ended December 31, 2020 was US\$0.75 compared to US\$0.75 during 2019. The strengthening of the Canadian dollar during 2020 resulted in an unrealized foreign currency translation loss of approximately \$26,453 for the year ended December 31, 2020, recognized in OCI.

CREDIT RISK

The Company's primary business is the ownership and operation of multi-suite residential, retail, office and hotel properties. The income stream generated by tenants paying rent can be affected by general and local economic conditions and by a change in the credit and financial stability of tenants. Examples of local conditions that could adversely affect income include oversupply of space or reduced demand for rental space, the attractiveness of the Company's properties compared to other space, and fluctuation in real estate taxes, insurance and other operating costs. The Company may be adversely affected if tenants become unable to meet their financial obligations under their leases, including as a result of the COVID-19 pandemic and related financial conditions that impact their creditworthiness.

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

As at December 31, 2020, the Company's ten largest tenants account for 19.3% of the Company's total rental revenue from real estate properties as follows:

Tenants as at December 31, 2020	Rental Revenue	GLA Square Feet (000s)	% of Total GLA ⁽¹⁾
Federal and provincial government	9.7%	2,025	12.4%
Bombardier Inc.	2.2%	529	3.2%
TD Canada Trust	1.6%	443	2.7%
Loblaw Companies Ltd.	1.2%	268	1.6%
Obsidian Energy Ltd.	1.1%	215	1.3%
Brookfield BPR Canada Corporation	0.8%	132	0.8%
Canadian Tire Corporation Ltd.	0.8%	384	2.4%
Athabasca Oil Corporation	0.7%	149	0.9%
Canadian Broadcasting Corporation	0.6%	96	0.6%
Wood Group	0.6%	127	0.8%
	19.3%	4,368	26.7%

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

COMMERCIAL LEASE ROLLOVER RISK

Lease rollover risk results from the possibility that the Company may experience difficulty in renewing leases as they expire or in re-leasing space vacated by a tenant upon expiry. The COVID-19 pandemic and related economic conditions may adversely impact the Company's ability to renew or re-lease space. Management attempts to stagger the lease expiry profile so that the Company is not exposed to disproportionate amounts of space expiring in any one year, as set out in the table below. Management further mitigates this risk by maintaining a diversified portfolio mix by both asset type and location.

Lease Expiries

Summary of Lease Expiries as at December 31, 2020	2021		2022		2023		
	Total SF	SF	%	SF	%	SF	%
Retail ⁽¹⁾	7,635	1,338	18%	825	11%	904	12%
Office	7,695	493	6%	513	7%	906	12%
Industrial	1,015	162	16%	227	22%	164	16%
Total	16,345	1,993	12%	1,565	10%	1,974	12%

(1) Retail SF has been adjusted to exclude development space of 544,197 square feet of GLA

MORGUARD REIT AND MORGUARD RESIDENTIAL REIT UNITHOLDER TAXATION

As at December 31, 2020, the Company owned 39,040,635 Units of Morguard REIT and 7,944,166 Units of Morguard Residential REIT and 17,223,090 Class B LP Units of Morguard NAR Canada Limited Partnership. The Class B LP Units are exchangeable, on a one-for-one basis, at the option of the Company, into Units of Morguard Residential REIT.

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

The Company believes that Morguard REIT and Morguard Residential REIT (the "REITs") intend to comply with the requirements under Part 1 of the *Income Tax Act* (Canada) (the "Tax Act") at all relevant times such that they maintain their status as "unit trusts" and "mutual fund trusts" for purposes of the Tax Act. Under current law, a trust may lose its

status under the Tax Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of non-residents, except in limited circumstances. Accordingly, non-residents may not be the beneficial owners of more than 49% of the Units (determined on a basic or a fully diluted basis). The Trustees of Morguard REIT and Morguard Residential REIT also have various powers that can be used for the purpose of monitoring and controlling the extent of non-resident ownership of the Units. The restrictions on the issuance of Units by the REITs to non-residents may negatively affect the REITs' ability to raise financing for future acquisitions or operations. In addition, the non-resident ownership restrictions could have a negative impact on the liquidity of the Units and the market price at which Units can be sold.

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

Although, as of the date hereof, management believes that Morguard REIT and Morguard Residential REIT has and are able to meet the requirements of the REIT Exception throughout 2020 and beyond, there can be no assurance that the REITs will be able to qualify for the REIT Exception such that the REITs and the Unitholders will not be subject to the SIFT Rules in 2021 or in future years.

VOLATILE MARKET PRICE FOR THE COMPANY'S SECURITIES

The market price for the Company's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following: (i) the actual or perceived impact of the COVID-19 pandemic and related financial conditions; (ii) actual or anticipated fluctuations in the Company's financial performance and future prospects; (iii) recommendations by securities research analysts; (iv) changes in the economic performance or market valuations of other issuers that investors deem comparable to the Company; (v) an addition to or departure of the Company's executive officers; (vi) release or expiration of lock-up or other transfer restrictions on outstanding shares; (vii) sales or perceived sales of additional shares; (viii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; (ix) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets; (x) liquidity of the Company's securities; (xi) prevailing interest rates; (xii) the market price of other Company securities; (xiii) a decrease in the amount of dividends declared and paid by the Company; and (xiv) general economic conditions.

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

DILUTION

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

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented and assessed the design 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 (COSO) Internal Control - Integrated Framework (2013). In order to ensure that the consolidated financial statements and MD&A present fairly, in all material respects, the financial position of the Company and the results of its operations, management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, has concluded that their design and operation are adequate and effective as of and for the year ended December 31, 2020. The Company's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design and operation are effective as of and for the year ended December 31, 2020.

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

PART VIII

SELECTED ANNUAL AND QUARTERLY INFORMATION

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

For the years ended December 31

(In thousands of dollars, except per common share amounts)

	2020	2019	2018
Revenue from income producing properties	\$888,324	\$872,223	\$841,497
Revenue from hotel properties	98,046	245,282	237,938
NOI	491,243	556,181	547,975
NOI per common share			
- basic and diluted	43.84	49.28	47.91
Net income (loss) attributable to common shareholders	(98,918)	186,939	319,851
Net income (loss) attributable to common shareholders per common share			
- basic and diluted	(8.83)	16.57	27.96
Normalized FFO	181,205	225,612	218,215
Normalized FFO per common share			
- basic and diluted	16.17	19.99	19.08
Dividends declared	6,714	6,770	6,842
Dividends per common share	0.60	0.60	0.60
Total assets	11,052,688	11,703,084	11,082,758
Non-current portion of financial liabilities			
Mortgages payable	3,789,034	3,781,668	3,573,185
Debentures payable	902,464	1,040,169	823,633
Morguard Residential REIT Units	446,091	516,462	417,481
Lease liability	162,456	164,441	9,754

(In thousands of dollars, except per common share amounts)	Total Revenue	NOI	Adjusted NOI	Normalized FFO	Net Income (Loss)	Net Income (Loss) Attributable to Common Shareholders	Net Income (Loss) to Common Shareholders per Share - Basic/Diluted
December 31, 2020	\$259,505	\$127,200	\$116,118	\$44,433	(\$98,540)	(\$62,328)	(\$5.57)
September 30, 2020	251,469	130,268	119,832	43,756	(37,602)	(4,606)	(0.42)
June 30, 2020	240,905	131,174	120,842	42,383	(105,038)	(65,396)	(5.81)
March 31, 2020	292,310	102,601	134,451	50,633	(8,870)	33,412	2.97
December 31, 2019	301,532	151,403	141,396	56,839	82,786	84,911	7.53
September 30, 2019	299,410	150,059	141,382	61,541	(2,291)	(1,180)	(0.10)
June 30, 2019	301,386	150,145	140,673	59,790	69,342	69,722	6.17
March 31, 2019	290,645	104,574	132,875	47,442	38,959	33,486	2.97

SUMMARY OF QUARTERLY RESULTS

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

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

During March 2020, the outbreak of COVID-19 resulted in governments enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, closure of non-essential businesses, self-imposed quarantine periods and social distancing, have caused an economic slowdown and material disruption to business. During the year ended December 31, 2020, the Company temporarily closed 21 hotels of which three hotels remain closed.

Significant Real Estate Property Transactions During the Year Ended December 31, 2020

During the first quarter of 2020, the Company disposed of its 50% interest held in one industrial property in Canada comprising 284,000 square feet of commercial leasable area.

During the third quarter of 2020, the Company disposed of one hotel property in Canada consisting of 145 rooms.

During the third quarter of 2020, the Company disposed of a retail property and an adjacent parcel of land in Canada classified as held for development consisting of approximately 10,000 square feet of commercial area.

During the fourth quarter of 2020, the Company disposed of one hotel property in Canada consisting of 241 rooms.

Significant Real Estate Property Transactions During the Year Ended December 31, 2019

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

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

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

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

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

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

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

Revenue and Net Operating Income

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

The Company has seen stable revenue during the quarters leading up to the onset of the COVID-19 pandemic which has declined since mainly at hotel and retail properties due to the impact of COVID-19. The change in foreign exchange rates and the impact of acquisition net of disposal of properties (described above) also contributed to the increase in revenue during the last eight quarters. Subsequent to the first quarter of 2020, revenue has increased mainly as a result of businesses re-opening towards the end of the second quarter of 2020. Lower hotel revenue follows a similar pattern during the first quarter of 2019 and 2020 and is seasonally impacted by the colder months.

Similar to the reasons described above, NOI over the last eight quarters resulting from an increase in revenue and the Company's ability to control expenses as a percentage of revenue. The decline in NOI subsequent to the first quarter of 2020 in addition to lower revenue (as described above) was due to higher bad debt expense due to the impact of COVID-19. The impact of foreign exchange rates and of acquisitions and dispositions also factor into the variance from quarter to quarter. The first quarter results (three months ended March 31) are impacted by IFRIC 21, whereby the Company records the entire annual realty tax expense for its U.S. properties on January 1, except for U.S. properties acquired during the year in which the realty taxes are not recorded in the year of acquisition. As a result, the second, third and fourth quarters typically have no realty tax expense which results in higher NOI and NOI margins. Adjusted NOI which excludes IFRIC 21 is presented in the table above to illustrate a more comparable quarter-to-quarter analysis.

Net Income (Loss) Attributable to Common Shareholders

Taking into account the above factors for revenue and NOI variations, the change in net income (loss) is predominantly due to higher interest from the Company's Unsecured Debentures resulting from the issuance of the Series E, Series F and Series G unsecured debentures in January 2019, November 2019 and September 2020, respectively, net of the Series B unsecured debentures repayment in November 2020. In addition, the change in net income (loss) resulted from the following non-cash components:

- The Company valued the Morguard Residential Units (presented as a liability under IFRS) based on the market value of the TSX-listed Units; During the year ended December 31, 2020, the volatility of the stock market from the impact of the global health crisis resulted in a significant decline in the Unit price of Morguard Residential that resulted in a fair value gain. Prior and subsequent to the first quarter of 2020, there has been an upward trend in the trading price of the Morguard Residential Units resulting in a fair value loss recorded to net income (loss);
- The Company recorded fair value loss on real estate properties for the year ended December 31, 2020, due to an increase in the capitalization rates at the Company's enclosed malls which have experienced lower collections and higher tenant failures. The Company recorded a fair value gain on real estate properties for the year ended December 31, 2019 due to an overall increase in stabilized NOI and compression in capitalization rates;
- The Company has recorded lower non-cash compensation expense related to the Company's SARs plan;
- The Company has recorded deferred tax recovery during 2020 coinciding with the fair value loss recorded on the Company's real estate properties;
- The Company recorded an impairment provision on hotel properties of \$5,562, \$7,588, \$23,891, \$19,059 and \$3,864 during the fourth quarter of 2020, third quarter of 2020, first quarter of 2020, third quarter of 2019 and fourth quarter of 2019, respectively.

Fourth Quarter Results 2020

For the three months ended December 31

(In thousands of dollars)

	2020	2019
Revenue from real estate properties	\$224,875	\$221,037
Revenue from hotel properties	19,630	60,931
Property operating expenses		
Property operating costs	(61,322)	(48,797)
Utilities	(14,091)	(14,381)
Realty taxes	(22,495)	(17,511)
Hotel operating expenses	(19,397)	(49,876)
Net operating income	127,200	151,403
OTHER REVENUE		
Management and advisory fees	10,460	14,410
Interest and other income	4,540	4,110
	15,000	18,520
EXPENSES		
Interest	57,677	57,487
Property management and corporate	19,996	20,934
Amortization of hotel properties and other	8,731	9,671
Provision for impairment	5,562	3,864
	91,966	91,956
OTHER INCOME (EXPENSE)		
Fair value gain (loss), net	(180,235)	7,618
Equity gain from investments	842	2,835
Other income	115	2,586
	(179,278)	13,039
Income (loss) before income taxes	(129,044)	91,006
Provision for (recovery of) income taxes		
Current	(1,816)	3,733
Deferred	(28,688)	4,487
	(30,504)	8,220
Net income (loss) for the period	(\$98,540)	\$82,786
Net income (loss) attributable to:		
Common shareholders	(\$62,328)	\$84,911
Non-controlling interest	(36,212)	(2,125)
	(\$98,540)	\$82,786

The Company's net income for the three months ended December 31, 2020, decreased by \$181,326, to a net loss of \$98,540, compared to a net income of \$82,786 in the fourth quarter of 2019. The decrease in net income was primarily due to the following:

- A decrease in net operating income of \$24,203, primarily due to lower NOI from the hotel portfolio resulting from hotel closures and reduced occupancies. In addition, lower NOI from the residential, retail, office and industrial portfolios was mainly caused by higher bad debt expense, partially offset by the net impact of acquisition activity net of dispositions completed during and subsequent to December 31, 2019;
- A decrease in management and advisory fees of \$3,950, primarily due to lower property management, asset management, leasing and disposition fees earned compared to the same period in 2019, partially offset by a provision for CEWS;
- An increase in provision for impairment of \$1,698, as a result of higher impairment recorded compared to the same period in 2019;

- An increase in net fair value loss of \$187,853, primarily due to:
 - A fair value decrease of \$119,886 on income producing properties primarily due to a higher fair value loss recorded at retail and office properties compared to the same period in 2019, partially offset by a lower fair value loss recorded at residential properties compared to the same period in 2019;
 - An increase in the fair value loss on Morguard Residential REIT Units of \$78,587, due to the change in market value of the Units; and
 - An increase of \$13,767 in unrealized changes in the fair value of the Company's financial instruments.
- A decrease in equity income from investments of \$1,993, mainly due to fair value losses recorded during the fourth quarter compared to fair value gains recorded during the same period in 2019;
- A decrease in other income of \$2,471, primarily due to an increase in foreign exchange loss; and
- An increase in current and deferred income tax recovery of \$38,724, primarily a result of a lower fair value increase related to Canadian and U.S. properties compared to the same period in 2019.

PART IX

OUTLOOK

A mixed Canadian and U.S. commercial property sector performance pattern was observed during 2020, following a prolonged period of generally positive results. The uneven performance pattern was a direct result of the negative economic effects of the COVID-19 pandemic. The North American real estate sector is expected to have transitioned into the recovery phase of the cycle by 2022. The Canadian and U.S. economies will gradually emerge from the pandemic-driven economic downturn over the coming year, with the mass distribution of more than one COVID-19 vaccine. Coincidentally, job creation and a return to economic growth will reduce the need for government transfer payments to North American households. As economic output steadily increases, commercial property market performance will strengthen. Industrial and multi-suite residential sector rents will firm and rise, and vacancy levels will return to the pre-pandemic lows. The retail and office sectors will continue to adjust to changes in how people shop and work, resulting in healthier performance patterns over the medium-to-long term. Leasing demand will strengthen, with technology, finance and logistics users leading the way. Some of the main downside economic risks include a longer-than-expected rollout of COVID-19 vaccines, increased trade tensions between China and the U.S., and a slower-than-expected U.S. economic recovery.

Over the coming year, the environment for acquisitions should continue to be extremely competitive. The Company remains disciplined in exploring new investment opportunities. Management will continue to seek acquisition opportunities, focusing on properties that are accretive in the long term.

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

CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S REPORT TO SHAREHOLDERS

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

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

As at December 31, 2020, the Chief Executive Officer and Chief Financial Officer evaluated, or caused the evaluation of under their direct supervision, the disclosure controls and procedures and the internal controls over financial reporting (as defined in Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that the disclosure controls and procedures were designed and operating effectively and the internal controls over financial reporting were designed and operating effectively.

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

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

(Signed) "K. Rai Sahi"

K. Rai Sahi
Chief Executive Officer

(Signed) "Paul Miatello"

Paul Miatello
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Morguard Corporation

Opinion

We have audited the consolidated financial statements of Morguard Corporation (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of income/(loss), consolidated statements of comprehensive income/(loss), consolidated statements of shareholder's equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How our audit addressed the key audit matter
<p>Valuation of real estate properties</p> <p>Morguard Corporation's investment property portfolio comprises income producing properties, properties under development and land held for development with a fair value of \$9.7 billion which represents 88% of total assets at December 31, 2020.</p> <p>Fair value of real estate properties is based on external and internal valuations, carried out by third party and certified staff appraisers respectively, using recognized valuation techniques. The valuation methodology for these investment properties is primarily based on an income approach, utilizing the direct capitalization method and the discounted cash flow method. Recent real estate transactions with characteristics and locations similar to the Company's assets are also considered when developing the valuations.</p> <p>Note 2 of the consolidated financial statements describes the accounting policy for investment properties, including the valuation method and valuation inputs.</p> <p>Note 4 of the consolidated financial statements discloses the sensitivity of the fair value of investment properties to a change in capitalization rates.</p> <p>The valuation of the Company's investment property portfolio is a key audit matter given the inherently subjective nature of significant assumptions including discount rates, capitalization rates, terminal capitalization rates, and stabilized cash flows or stabilized net operating income, as applicable, which are based on vacancy and leasing assumptions. These assumptions are influenced by property-specific characteristics including location, type and quality of the properties and tenancy agreements.</p>	<p>With the assistance of our real estate valuation specialists, we evaluated the appropriateness of the underlying valuation methodology, and performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We assessed the competence and objectivity of management's valuation team, and any third-party appraisers engaged, by reviewing the qualifications and expertise of the individuals involved in the preparation and review of the valuations. • We selected a sample of properties where either the fair value change from prior year or significant assumptions fell outside our expectations, based on our understanding of the geographical real estate market for the specific asset type. For this sample of investment properties, we evaluated the significant assumptions, including discount rates, capitalization rates, terminal capitalization rates, and stabilized cash flows or stabilized net operating income, as applicable, which are based on vacancy and leasing assumptions, by comparison to the expected real estate market benchmark range for similar assets and tenancies, in similar locations. We also considered whether there were any additional asset-specific characteristics that may impact the significant assumptions utilized and that these were appropriately considered in the overall assessment of fair value. • We assessed the accuracy of management's historical fair value estimates through comparison to transactions to acquire and dispose of interests in investment properties completed by the Company during the year. • We evaluated the Company's critical accounting policies and related disclosures in the consolidated financial statements to assess appropriateness and conformity with IFRS.

Key Audit Matter	How our audit addressed the key audit matter
<p><i>De facto</i> Control of Morguard North American Residential Real Estate Investment Trust</p> <p>As at December 31, 2020 the Company owns a 44.7% effective interest in Morguard North American Residential Real Estate Investment Trust (“MRG”) through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units. The investment is consolidated on the basis of <i>de facto</i> control in accordance with IFRS 10.</p> <p>Note 2 of the consolidated financial statements describes the accounting policy in relation to consolidation and non-controlling interests.</p> <p>Note 3 of the consolidated financial statements details the <i>de facto</i> control considerations.</p> <p>The consolidation of the Company’s investment in MRG on the basis of <i>de facto</i> control is a key audit matter given the materiality of the investment and the judgment involved in the assessment of the <i>de facto</i> control conclusion. Management’s key considerations for concluding that the Company controls MRG include the significant interest the Company has in MRG’s voting rights, the wide ownership dispersion of the remaining units of MRG, the Company’s ability to nominate a minimum number of MRG’s trustees, the overlap in executive management of the Company and MRG, and that MRG is significantly dependent on the Company as a result of existing service agreements.</p> <p>Due to the judgement and subjectivity involved in this assessment, changes in the facts and circumstances could lead to the potential risk that the Company does not control MRG and, as a result, the financial statement presentation and disclosure of the Company’s investment in MRG would be materially impacted.</p>	<p>In order to assess the Company’s ability to direct the relevant activities of MRG, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We assessed the Company’s ownership and voting rights of MRG. • We assessed the Company’s ability to appoint or approve a minimum number of MRG’s trustees. • We considered MRG’s key management roles, including evaluating related party transactions. • We assessed existing service agreements for property management, asset management, debt financing and acquisitions to assess the significance of MRG’s dependency on the Company. • We reviewed the relevant notes to the year-end consolidated financial statements to assess whether the disclosures appropriately identify relevant judgments and assumptions made by management in concluding that they maintain <i>de facto</i> control over MRG.

Key Audit Matter	How our audit addressed the key audit matter
<p>Impairment – Hotel Properties</p> <p>The carrying value of the Company’s hotel properties is \$545.0 million as at December 31, 2020. For the period ended December 31, 2020, the Company recorded an impairment charge of \$37.0 million with respect to the hotel properties.</p> <p>Note 2 of the consolidated financial statements describes the Company’s impairment of non-financial assets accounting policy.</p> <p>Note 5 of the consolidated financial statements details the Company’s disclosure of hotel properties and associated impairment provisions and significant assumptions.</p> <p>The Company defines each hotel property as a Cash-generating unit (“CGU”). CGUs are assessed by management for indicators of impairment, or impairment reversal, at each reporting date. Impairment is determined by estimating a CGU’s respective recoverable amount. The recoverable amount of a CGU is the greater of its value-in-use or fair value less costs of disposal.</p> <p>The impairment of hotel properties is a key audit matter as auditing the Company’s estimated recoverable amounts was complex and involves a significant degree of management judgement in determining the key assumptions. Management considers both qualitative and quantitative factors when performing their assessment. The key inputs when determining the recoverable amount of each CGU were the discount rates, terminal capitalization rates, and future operating cash flows which includes average daily rates, growth rates, management fees, replacement reserve, capital expenditures and occupancy rates.</p>	<p>With the assistance of our valuation specialists, we evaluated the appropriateness of the underlying valuation methodology, and performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We understood management’s application of key assumptions and assessed the underlying average daily rates and occupancy assumptions that management used in their impairment model by comparison to the expected real estate market benchmark range for hotel assets. Additionally, our valuation specialists utilized the direct comparison approach to assess the reasonableness of management’s final value conclusions derived from their income approach. • We assessed the historical accuracy of management’s estimates and projections by comparing them to actual and historical performance, investigated significant variances identified and considered the impact on the current year’s impairment assessments, if any. • We assessed the related disclosures in the year-end consolidated financial statements for impairment to assess whether they are appropriate under IFRS.

Other information

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

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

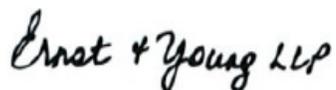
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

The logo for Ernst & Young LLP, written in a cursive, handwritten style.

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
February 25, 2021

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31	Note	2020	2019
ASSETS			
Non-current assets			
Real estate properties	4	\$9,680,408	\$10,201,283
Hotel properties	5	545,041	628,783
Equity-accounted and other fund investments	7	216,278	248,665
Other assets	8	338,126	404,018
		10,779,853	11,482,749
Current assets			
Amounts receivable	9	92,923	78,071
Prepaid expenses and other		37,824	19,096
Cash		142,088	123,168
		272,835	220,335
		\$11,052,688	\$11,703,084
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable	10	\$3,789,034	\$3,781,668
Debentures payable	11	902,464	1,040,169
Lease liabilities	13	162,456	164,441
Morguard Residential REIT Units	12	446,091	516,462
Deferred income tax liabilities	22	648,225	733,786
		5,948,270	6,236,526
Current liabilities			
Mortgages payable	10	480,340	583,611
Debentures payable	11	314,010	199,778
Loans payable	21	20,000	33,679
Accounts payable and accrued liabilities	14	220,568	242,673
Bank indebtedness	15	156,802	101,100
		1,191,720	1,160,841
Total liabilities		7,139,990	7,397,367
EQUITY			
Shareholders' equity		3,372,352	3,548,906
Non-controlling interest		540,346	756,811
Total equity		3,912,698	4,305,717
		\$11,052,688	\$11,703,084

Contingencies

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See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Director

(Signed) "Bruce K. Robertson"

Bruce K. Robertson,
Director

STATEMENTS OF INCOME (LOSS)

In thousands of Canadian dollars, except per common share amounts

For the years ended December 31	Note	2020	2019
Revenue from real estate properties	17	\$888,324	\$872,223
Revenue from hotel properties	17	98,046	245,282
Property operating expenses			
Property operating costs	9(a), 9(b)	(212,299)	(186,656)
Utilities		(56,603)	(58,167)
Realty taxes		(136,556)	(126,773)
Hotel operating expenses	9(a)	(89,669)	(189,728)
Net operating income		491,243	556,181
OTHER REVENUE			
Management and advisory fees	17	42,080	52,401
Interest and other income		15,739	19,267
		57,819	71,668
EXPENSES			
Interest	18	236,721	230,895
Property management and corporate	16(c), 9(a)	59,607	94,129
Amortization of hotel properties and other		35,295	36,152
Provision for impairment	5	37,041	22,923
		368,664	384,099
OTHER INCOME (EXPENSE)			
Fair value gain (loss), net	19	(493,945)	7,731
Equity loss from investments	7	(7,470)	(28,825)
Other income	20	1,233	2,835
		(500,182)	(18,259)
Income (loss) before income taxes		(319,784)	225,491
Provision for (recovery of) income taxes	22		
Current		8,260	11,422
Deferred		(77,994)	25,273
		(69,734)	36,695
Net income (loss) for the year		(\$250,050)	\$188,796
Net income (loss) attributable to:			
Common shareholders		(\$98,918)	\$186,939
Non-controlling interest		(151,132)	1,857
		(\$250,050)	\$188,796
Net income (loss) per common share attributable to:			
Common shareholders - basic and diluted	23	(\$8.83)	\$16.57

See accompanying notes to the consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

In thousands of Canadian dollars

For the years ended December 31	Note	2020	2019
Net income (loss) for the year		(\$250,050)	\$188,796
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to net income (loss):			
Unrealized foreign currency translation loss		(26,453)	(77,743)
Deferred income tax recovery	22(b)	75	643
		(26,378)	(77,100)
Items that will not be reclassified subsequently to net income (loss):			
Actuarial gain (loss) on defined benefit pension plans	25	(27,897)	9,825
Deferred income tax recovery (provision)	22(b)	7,369	(2,472)
		(20,528)	7,353
Other comprehensive loss		(46,906)	(69,747)
Total comprehensive income (loss) for the year		(\$296,956)	\$119,049
Total comprehensive income (loss) attributable to:			
Common shareholders		(\$144,504)	\$121,489
Non-controlling interest		(152,452)	(2,440)
		(\$296,956)	\$119,049

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Retained Earnings	Accumulated Other Comprehensive Income	Share Capital	Total Shareholders' Equity	Non-controlling Interest	Total
Shareholders' equity, January 1, 2019		\$3,055,576	\$273,354	\$102,436	\$3,431,366	\$797,432	\$4,228,798
Changes during the year:							
Net income		186,939	—	—	186,939	1,857	188,796
Other comprehensive loss		—	(65,450)	—	(65,450)	(4,297)	(69,747)
Dividends		(6,770)	—	—	(6,770)	—	(6,770)
Distributions		—	—	—	—	(28,029)	(28,029)
Issuance of common shares		—	—	90	90	—	90
Repurchase of common shares		(1,993)	—	(100)	(2,093)	—	(2,093)
Contribution from non-controlling interest		—	—	—	—	15,930	15,930
Increase in subsidiary ownership interest		—	—	—	—	(15,497)	(15,497)
Change in ownership of Temple Hotels Inc.		(2,498)	—	—	(2,498)	2,449	(49)
Change in ownership of Morguard REIT		6,418	—	—	6,418	(13,034)	(6,616)
Tax impact of increase in subsidiary ownership interest		904	—	—	904	—	904
Shareholders' equity, December 31, 2019		\$3,238,576	\$207,904	\$102,426	\$3,548,906	\$756,811	\$4,305,717
Changes during the year:							
Net loss		(98,918)	—	—	(98,918)	(151,132)	(250,050)
Other comprehensive loss		—	(45,586)	—	(45,586)	(1,320)	(46,906)
Dividends	16(a)	(6,714)	—	—	(6,714)	—	(6,714)
Distributions		—	—	—	—	(18,102)	(18,102)
Issuance of common shares	16(a)	—	—	99	99	—	99
Repurchase of common shares	16(a)	(20,966)	—	(1,583)	(22,549)	—	(22,549)
Change in ownership of Temple Hotels Inc.	16(b)	(23,235)	—	—	(23,235)	(20,914)	(44,149)
Change in ownership of Morguard REIT	16(b)	24,044	—	—	24,044	(24,997)	(953)
Tax impact of increase in subsidiary ownership interest	22(b)	(3,695)	—	—	(3,695)	—	(3,695)
Shareholders' equity, December 31, 2020		\$3,109,092	\$162,318	\$100,942	\$3,372,352	\$540,346	\$3,912,698

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the years ended December 31	Note	2020	2019
OPERATING ACTIVITIES			
Net income (loss) for the year		(\$250,050)	\$188,796
Add items not affecting cash	24(a)	478,413	93,192
Distributions from equity-accounted and other fund investments	7	34,364	6,778
Additions to tenant incentives and leasing commissions	4	(7,776)	(7,521)
Net change in operating assets and liabilities	24(b)	(43,014)	1,169
Cash provided by operating activities		211,937	282,414
INVESTING ACTIVITIES			
Additions to real estate properties and tenant improvements	4	(52,635)	(391,302)
Additions to hotel properties	5	(7,142)	(17,876)
Additions to capital and intangible assets		(2,141)	(12,659)
Proceeds from the sale of real estate properties, net	4	34,879	64,653
Proceeds from the sale of hotel properties, net	5	6,911	1,849
Investment in properties under development	4	(29,656)	(50,045)
Investment in equity-accounted and other fund investments, net		(18,308)	(68,708)
Investment in marketable securities		—	(87,668)
Cash used in investing activities		(68,092)	(561,756)
FINANCING ACTIVITIES			
Proceeds from new mortgages		446,157	475,981
Financing costs on new mortgages		(2,997)	(3,275)
Repayment of mortgages			
Repayments on maturity		(268,524)	(308,293)
Repayments due to mortgage extinguishments		(111,774)	(62,967)
Principal instalment repayments		(111,140)	(110,771)
Principal payment of lease liabilities		(1,722)	(2,099)
Proceeds from bank indebtedness		477,789	380,344
Repayment of bank indebtedness		(422,087)	(504,404)
Proceeds from issuance of Morguard Residential REIT Units, net of cost	12	—	74,528
Proceeds from issuance of debentures payable, net of costs	11(a)	174,303	447,575
Redemption of debentures payable	11(a)	(200,000)	(39,636)
Repayment of loans payable, net		(15,234)	(22,784)
Dividends paid		(6,615)	(6,680)
Distributions to non-controlling interest, net		(17,475)	(11,170)
Common shares repurchased for cancellation	16(a)	(22,549)	(2,093)
Investment in subsidiaries	3,16(b)	(45,102)	(6,665)
Increase in subsidiary ownership interest		—	(8,014)
Decrease in restricted cash		4,123	4,936
Cash provided by (used in) financing activities		(122,847)	294,513
Net increase in cash during the year		20,998	15,171
Net effect of foreign currency translation on cash balance		(2,078)	(2,404)
Cash, beginning of year		123,168	110,401
Cash, end of year		\$142,088	\$123,168

See accompanying notes to the consolidated financial statements.

NOTES

For the years ended December 31, 2020 and 2019

In thousands of Canadian dollars, except per common share and Unit amounts and unless otherwise noted

NOTE 1

NATURE AND DESCRIPTION OF COMPANY

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

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements were approved and authorized for issue by the Board of Directors on February 25, 2021.

At this time, the duration and impact of the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19” is unknown as is the effectiveness of the government and central bank interventions. Any estimate of the length and severity of these measures are therefore subject to significant uncertainty and, accordingly, estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty. Management believes it is currently not possible to estimate the long-term impacts the outbreak of COVID-19 will have in determining estimates of fair market value for the Company’s real estate properties, investments in joint arrangements and the valuation of financial instruments. In a long-term scenario, the significant assumptions used in the assessment of fair value and impairment, including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount and capitalization rate and stabilized net operating income (which is primarily influenced by revenue growth, vacancy rates, inflation rates and operating costs), could potentially be impacted, which ultimately impact the underlying valuation of the Company’s real estate properties and equity-accounted investments.

Basis of Presentation

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

Basis of Consolidation

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

Non-controlling Interests and MRG Convertible Debentures

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

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

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

Investments in Associates

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

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

Interests in Joint Arrangements

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

Lease Liabilities

The Company adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019, using a modified retrospective approach. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

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

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

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

The Company measures lease liabilities at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

Real Estate Properties

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

Income Producing Properties

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

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

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

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

Properties Under Development

The cost of properties under development includes all expenditures incurred in connection with the acquisition, including all direct development costs, realty taxes and other costs to prepare it for its productive use and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on the purchase cost of a site or property acquired specifically for redevelopment in the short term if the activities necessary to prepare the asset for development or redevelopment are in progress. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The Company considers practical completion to have

occurred when the property is capable of operating in the manner intended by management. Generally, this consideration occurs on completion of construction and receipt of all necessary occupancy and other material permits. Where the Company has pre-leased space as of or prior to the start of the development and the lease requires the Company to construct tenant improvements that enhance the value of the property, practical completion is considered to occur on completion of such improvements.

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

Hotel Properties

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

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

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

Cash and Cash Equivalents

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

Goodwill

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

Capital Assets

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

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

Intangible Assets

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

Inventory - Land Held for Residential Development

Land for residential development properties that is acquired or improved for sale in the ordinary course of business is recorded at the lower of cost or estimated net realizable value and is classified in the consolidated balance sheets as residential inventory properties, which are included as part of "other assets" (Note 8). Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue and include borrowing costs directly attributable to projects under active development. Residential developments are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may exceed net realizable value. An impairment loss is recognized in income when the carrying value of the land exceeds its net realizable value. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

Impairment of Non-financial Assets

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

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

Provisions

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

Financial Instruments

Recognition and Measurement of Financial Instruments

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

Expected Credit Loss

The Company utilizes the simplified approach to measure expected credit losses ("ECL") under IFRS 9, Financial Instruments ("IFRS 9"), which requires the Company to recognize a lifetime expected credit loss allowance on all receivables at each reporting date.

Under the simplified approach, consideration is given to factors such as credit risk characteristics and the days past due as well as current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the COVID-19 pandemic and government's response actions to be relevant factors in these assessments. As at December 31, 2020, the Company's ECL includes estimates of the uncertainty of the recoverability of tenant receivables, short-term rent deferrals, rent reductions provided to tenants related to past due rents, and all other receivable balances. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are reversed in the consolidated statements of income (loss).

The Company accounts for rental abatements related to past due rents in connection with tenants experiencing financial hardship as a result of COVID-19 under the derecognition rules of IFRS 9. This includes abatements granted as a part of the Canada Emergency Commercial Rent Assistance (“CECRA”) program (Note 9(b)). Financial assets, such as trade receivables, are derecognized when all or a portion of outstanding amounts will be forgiven or abated and no further collection activities will be pursued. The forgiveness or abatement of the tenant receivable is recognized in the period that the Company forgoes the contractual right to all or a portion of the outstanding receivable and is recognized as bad debt expense in the consolidated statements of income (loss).

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

Financial Assets

Investment in real estate funds	FVTPL
Investment in marketable securities	FVTPL
Finance lease receivable	Amortized cost
Mortgages and loans receivable	Amortized cost
Amounts receivable	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost

Financial Liabilities

Mortgages payable	Amortized cost
Unsecured debentures	Amortized cost
Convertible debentures, excluding conversion option	Amortized cost
Loans payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liabilities	Amortized cost
Bank indebtedness	Amortized cost
Conversion option of MRG convertible debentures	FVTPL
Morguard Residential REIT Units	FVTPL

Transaction Costs

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

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

Fair Value

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

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

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

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

Revenue Recognition

Revenue from Real Estate Properties

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

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

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

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

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

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

Revenue from Hotel Properties

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

Management and Advisory Fees

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

Fees for base property and asset management services, and project and development services are generally recognized as revenue over the period of performance of those services, when the property owners simultaneously receive and consume the benefits provided. The Company elects the practical expedient to recognize revenue based

on amounts invoiced to the customer, when this method of measuring progress best depicts the performance provided. Invoicing is based on contractual prices, which represent the standalone selling prices of specified promised services. Variable consideration depending on the occurrence of uncertain future events are estimated using the most likely amount method, based on all reasonably available information, and are, if need be, capped at the minimum amount considered as highly probable.

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

Government Grants

The Company recognizes government assistance, in the form of grants or forgivable loans, when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government assistance that compensates the Company for expenses are recognized as income on a systematic basis over the same periods that the related costs, for which it is intended to compensate, are expensed.

Income Taxes

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

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

Employee Future Benefits

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

Stock-Based Compensation

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

Income (Loss) Per Common Share

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

Foreign Exchange

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

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

	2020	2019
Canadian dollar to United States dollar exchange rates:		
- As at December 31	\$0.7854	\$0.7699
- Average for the year ended December 31	0.7454	0.7536
United States dollar to Canadian dollar exchange rates:		
- As at December 31	1.2732	1.2988
- Average for the year ended December 31	1.3415	1.3269

Reportable Operating Segments

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

Critical Judgments in Applying Accounting Policies

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

De Facto Control

The Company's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining when the Company controls an investment even if the Company holds less than a majority of the investee's voting rights (the existence of *de facto* control). The key assumptions in determining when the Company controls an investment on the basis of *de facto* control are further defined in Note 3.

Real Estate Properties

The Company's accounting policies relating to real estate properties are described above. In applying these policies, judgment has been applied in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and tenant improvements and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. The key assumptions in the valuation of the Company's real estate properties are further defined in Note 4.

Joint Arrangements

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

Business Combinations

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

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

Critical Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods. In determining estimates of fair market value and net realizable values for the Company’s real estate properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of real estate properties are outlined in Note 4.

Property and equipment and investments in joint arrangements are assessed for impairment. Significant assumptions are used in the assessment of fair value and impairment including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount rate, appropriate growth rates (revenues and costs) and changes in market valuation parameters. Management considers various factors in its assessment including the historical performance of property and equipment and investments in joint arrangements, expected trends in each specific market as well as local and macroeconomic conditions. The critical estimates and assumptions underlying the valuation of hotel properties are outlined in Note 5.

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

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

NOTE 3

SUBSIDIARIES WITH NON-CONTROLLING INTEREST

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

As at December 31, 2020, the Company owned a 44.7% (2019 - 44.8%) effective interest in Morguard Residential REIT through its ownership of 7,944,166 Units and 17,223,090 Class B LP Units. The Company continues to consolidate its investment in Morguard Residential REIT on the basis of *de facto* control in accordance with IFRS 10, Consolidated Financial Statements (“IFRS 10”). The basis for concluding that the Company continues to control Morguard Residential REIT is as follows: (i) the Company holds a significant interest in Morguard Residential REIT’s voting rights as at December 31, 2020; (ii) there is a wide dispersion of the public holdings of Morguard Residential REIT’s remaining Units; (iii) the Company has the ability to nominate a minimum number of Morguard Residential REIT’s trustees based on the Company’s ownership interest; (iv) all of Morguard Residential REIT’s senior management are employees of the Company; and (v) Morguard Residential REIT is significantly dependent on the Company as a result of existing service agreements that cover property management, asset management, debt financing and acquisitions.

During the year ended December 31, 2020, Morguard Residential REIT recorded distributions of \$27,285, or \$0.6996 per Unit (2019 - \$24,527, or \$0.6862 per Unit), of which \$5,558 was paid to the Company (2019 - \$4,919) and \$21,727 was paid to the remaining Unitholders (2019 - \$19,608). In addition, during the year ended December 31, 2020, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of \$12,049 (2019 - \$11,756).

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

As at December 31, 2020, the Company owned 39,040,635 Units (2019 - 35,520,482 Units) of Morguard REIT, which represents a 60.9% (2019 - 58.5%) ownership interest.

During the year ended December 31, 2020, Morguard REIT recorded distributions of \$39,612 or \$0.64 per Unit (2019 - \$58,283, or \$0.96 per Unit), of which \$23,468 (2019 - \$33,750) was paid to or received through MRT’s distribution reinvestment program (“MRT DRIP”) by the Company and \$16,144 was paid to the remaining Unitholders (2019 - \$24,533).

Temple Hotels Inc. (“Temple”)

On December 19, 2019, the Company entered into a definitive agreement with Temple to acquire all of the outstanding common shares of Temple not currently owned by the Company. The transaction was effected by way of a court-approved plan of arrangement under the *Canada Business Corporations Act*. A meeting of Temple shareholders was held February 10, 2020, whereat Temple shareholders approved a special resolution approving the acquisition by the Company of all of the issued and outstanding common shares of Temple not already owned by the Company. The arrangement agreement was completed on February 18, 2020, and subsequently on February 19, 2020, Temple de-listed from the TSX.

As at December 31, 2019, the Company owned 54,492,911 common shares of Temple, which represented a 72.6% ownership interest.

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

As at December 31	2020		2019		
	MRT	MRG	MRT	MRG	Temple
Non-current assets	\$2,519,270	\$3,034,246	\$2,914,709	\$2,979,179	\$443,789
Current assets	36,958	50,112	21,127	54,248	20,681
Total assets	\$2,556,228	\$3,084,358	\$2,935,836	\$3,033,427	\$464,470
Non-current liabilities	\$934,873	\$1,580,870	\$1,093,403	\$1,729,489	\$128,844
Current liabilities	471,904	155,869	318,289	78,145	255,036
Total liabilities	\$1,406,777	\$1,736,739	\$1,411,692	\$1,807,634	\$383,880
Equity	\$1,149,451	\$1,347,619	\$1,524,144	\$1,225,793	\$80,590
Non-controlling interest	\$451,716	\$744,559	\$634,841	\$676,895	\$22,056

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

For the years ended December 31	2020		2019		
	MRT	MRG	MRT	MRG	Temple
Revenue	\$253,764	\$248,683	\$273,074	\$245,596	\$155,756
Expenses	(186,300)	(197,863)	(178,268)	(198,366)	(192,558)
Fair value gain (loss) on real estate properties, net	(419,766)	72,238	(73,850)	55,977	—
Fair value gain (loss) on Class B LP Units	—	43,747	—	(23,079)	—
Net income (loss) for the year	(\$352,302)	\$166,805	\$20,956	\$80,128	(\$36,802)
Non-controlling interest	(\$142,371)	\$92,160	\$9,009	\$44,247	(\$11,014)

For the years ended December 31	2020		2019		
	MRT	MRG	MRT	MRG	Temple
Cash provided by operating activities	\$46,919	\$50,128	\$89,358	\$62,483	\$8,024
Cash used in investing activities	(25,016)	(28,064)	(36,419)	(67,831)	(4,571)
Cash provided by (used in) financing activities	(19,039)	(11,572)	(57,808)	6,072	(7,966)
Net increase (decrease) in cash during the year	\$2,864	\$10,492	(\$4,869)	\$724	(\$4,513)

NOTE 4

REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at December 31	2020	2019
Income producing properties	\$9,568,219	\$10,074,175
Properties under development	25,416	43,650
Land held for development	86,773	83,458
	\$9,680,408	\$10,201,283

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

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2019	\$10,074,175	\$43,650	\$83,458	\$10,201,283
Additions:				
Acquisitions	2,848	—	—	2,848
Capital expenditures	40,845	—	—	40,845
Development expenditures	—	29,310	346	29,656
Tenant improvements, incentives and leasing commissions	16,718	—	—	16,718
Transfers	42,079	(48,079)	6,000	—
Dispositions	(40,185)	—	(5,192)	(45,377)
Fair value gain (loss), net	(513,895)	—	2,423	(511,472)
Foreign currency translation	(57,508)	535	(262)	(57,235)
Other	3,142	—	—	3,142
Balance as at December 31, 2020	\$9,568,219	\$25,416	\$86,773	\$9,680,408

Transactions completed during the year ended December 31, 2020

Acquisitions

During the year ended December 31, 2020, the Company completed no material acquisitions.

Dispositions

On March 25, 2020, the Company sold its 50% interest in an industrial property, comprising 284,000 square feet located in Puslinch, Ontario, for gross proceeds of \$38,577, including closing costs, and the purchaser assumed the mortgage secured by the property in the amount of \$10,498. In addition, the Company's equity-accounted investment, MIL Industrial Fund II LP, sold its interest in the property (Note 7(a)).

On August 18, 2020, the Company sold a retail property and an adjacent parcel of land classified as held for development located in Ottawa, Ontario, comprising 10,000 square feet, for net proceeds of \$6,800, including closing costs.

Reconciliation of the carrying amounts for real estate properties for the year ended December 31, 2019, is set out below:

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2018	\$9,511,302	\$56,717	\$77,577	\$9,645,596
Additions:				
Acquisitions	320,061	—	—	320,061
Capital expenditures	60,555	—	—	60,555
Development expenditures	—	49,891	154	50,045
Tenant improvements, incentives and leasing commissions	18,207	—	—	18,207
Transfers	61,948	(61,948)	—	—
Transfer from equity-accounted investment (Note 7(a))	172,597	—	—	172,597
Dispositions	(89,342)	—	(494)	(89,836)
Adoption of IFRS 16 (Note 2)	153,610	—	—	153,610
Fair value gain (loss), net	19,643	(61)	7,067	26,649
Foreign currency translation	(144,267)	(949)	(846)	(146,062)
Other	(10,139)	—	—	(10,139)
Balance as at December 31, 2019	\$10,074,175	\$43,650	\$83,458	\$10,201,283

Transactions completed during the year ended December 31, 2019

Acquisitions

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

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

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

⁽²⁾ The total purchase price of the office acquisition is \$96,138, including closing costs, of which \$9,444 has been allocated to capital assets (Note 8) relating to owner occupied space, based on square feet.

Dispositions

The following table presents a summary of the Company's dispositions and their proceeds, including closing costs.

Date of Disposition	Ownership	Asset Type	Location	At Ownership Interest		Proceeds	Net Proceeds ⁽¹⁾
				Apartment Suites	Commercial Square Feet		
February 1, 2019	100%	Residential	Shreveport, LA	194	—	\$13,510	\$6,530
March 19, 2019	100%	Residential	Lafayette, LA	192	—	15,062	5,645
March 19, 2019	100%	Residential	New Iberia, LA	148	—	8,208	2,274
March 27, 2019	100%	Residential	Gretna, LA	261	—	22,601	11,270
April 30, 2019	100%	Residential	Harahan, LA	48	—	4,428	1,576
June 21, 2019	100%	Industrial	Victoriaville, QC	—	10,000	90	90
July 31, 2019	50%	Industrial	Salaberry-de-Valleyfield, QC	—	242,521	15,914	15,914
December 30, 2019	100%	Retail	Alexandria, LA	—	167,500	10,023	10,023
				843	420,021	\$89,836	\$53,322

⁽¹⁾ Net of mortgage repayment (\$11,331) and mortgages assumed by the purchaser (\$25,183).

Capitalization Rates

As at December 31, 2020, and 2019, the Company had its portfolio internally appraised. In addition, the Company's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

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

As at December 31, 2020, the duration and impact of the COVID-19 pandemic is unknown. The impact of COVID-19 on estimating fair values for the Company's properties at December 31, 2020, required judgment based on evolving facts and available information, particularly for the retail properties, which have experienced significantly lower collections and higher tenant failure rates. During the year ended December 31, 2020, the Company recorded a fair value loss relating to its retail properties of \$477,299, predominantly due to an increase in capitalization rates at most of the Company's enclosed malls as well as assumptions on the collectibility of rental revenue as well as market rent and re-leasing assumptions. In addition, it is not possible to estimate the long-term impacts COVID-19 will have on the Company's valuation of income producing properties as the length and severity of these developments are subject to significant uncertainty.

As at December 31, 2020, using the direct capitalization approach, the multi-suite residential, retail, office and industrial properties were valued using capitalization rates in the range of 3.3% to 9.8% (2019 - 3.5% to 8.5%), resulting in an overall weighted average capitalization rate of 5.4% (2019 - 5.5%).

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

As at	December 31, 2020					December 31, 2019				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	98.0%	92.0%	6.8%	3.3%	4.3%	98.0%	92.0%	6.8%	3.5%	4.5%
Retail	99.0%	85.0%	9.8%	5.3%	6.9%	100.0%	85.0%	8.5%	5.3%	6.5%
Office	100.0%	90.0%	8.5%	4.3%	6.2%	100.0%	90.0%	8.5%	4.3%	6.1%
Industrial	100.0%	95.0%	6.8%	4.8%	5.3%	100.0%	95.0%	6.8%	5.0%	5.2%

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

As at	December 31, 2020			December 31, 2019		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Retail						
Discount rate	10.5%	6.0%	7.3%	9.3%	6.0%	7.0%
Terminal cap rate	9.5%	5.3%	6.2%	8.5%	5.3%	5.9%
Office						
Discount rate	8.0%	5.3%	6.4%	8.0%	5.3%	6.5%
Terminal cap rate	7.5%	4.3%	5.7%	7.3%	4.3%	5.7%
Industrial						
Discount rate	6.5%	6.0%	6.1%	6.5%	6.0%	6.1%
Terminal cap rate	6.0%	5.0%	5.4%	6.0%	5.0%	5.4%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rates were to increase or decrease by 25 basis points (assuming no change in stabilized net operating income), the value of the income producing properties as at December 31, 2020, would decrease by \$420,593 and increase by \$463,702, respectively.

The sensitivity of the fair values of the Company's income producing properties as at December 31, 2020, and 2019, is set out in the table below:

As at	December 31, 2020		December 31, 2019	
Change in capitalization rate:	0.25%	(0.25%)	0.25%	(0.25%)
Multi-suite residential	(\$255,541)	\$285,352	(\$246,954)	\$275,369
Retail	(70,078)	75,329	(89,687)	96,807
Office	(88,986)	96,443	(89,194)	96,766
Industrial	(5,988)	6,578	(6,944)	7,649
	(\$420,593)	\$463,702	(\$432,779)	\$476,591

NOTE 5

HOTEL PROPERTIES

Hotel properties consist of the following:

As at December 31, 2020	Cost	Accumulated Impairment Provision	Accumulated Amortization	Net Book Value
Land	\$93,251	(\$2,407)	\$—	\$90,844
Buildings	559,221	(89,312)	(57,315)	412,594
Furniture, fixtures, equipment and other	106,948	(8,940)	(57,885)	40,123
Right-of-use asset - land lease	1,596	—	(116)	1,480
	\$761,016	(\$100,659)	(\$115,316)	\$545,041

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

Transactions in hotel properties for the year ended December 31, 2020, are summarized as follows:

As at December 31, 2020	Opening Net Book Value	Additions	Impairment Provision	Dispositions	Amortization	Closing Net Book Value
Land	\$94,704	\$—	\$—	(\$3,860)	\$—	\$90,844
Buildings	476,360	1,754	(33,892)	(18,967)	(12,661)	412,594
Furniture, fixtures, equipment and other	56,181	5,388	(3,149)	(3,683)	(14,614)	40,123
Right-of-use asset - land lease	1,538	—	—	—	(58)	1,480
	\$628,783	\$7,142	(\$37,041)	(\$26,510)	(\$27,333)	\$545,041

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

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

Transactions completed during the year ended December 31, 2020

Dispositions

On July 6, 2020, the Company sold a hotel located in Sydney, Nova Scotia, for gross proceeds of \$10,763 (including a promissory note receivable of \$500), resulting in aggregate net cash proceeds of \$2,973 after deducting the repayment of first mortgage loan of \$6,666 and working capital adjustments. On disposition the recoverable amount exceeded the carrying value of the property of \$8,072, resulting in a gain of \$2,067, including closing costs (Note 20).

On November 2, 2020, the Company sold a hotel located in Red Deer, Alberta, for gross proceeds of \$18,533 (including a promissory note receivable of \$14,500), resulting in aggregate net cash proceeds of \$3,938 after deducting working capital adjustments. On disposition the carrying value of the property of \$19,011 exceeded net proceeds including closing costs, resulting in a provision for impairment of \$573.

Impairment Provision

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

During the year ended December 31, 2020, impairment indicators were identified including interruptions to business operations at certain hotel properties resulting from emergency measures enacted to combat COVID-19. Since March 2020, at the onset of the outbreak of the COVID-19 pandemic, 21 of the Company's hotel properties were subject to temporary closure of which three remain closed. A recoverability analysis was completed in accordance with the procedures specified by IFRS, which indicated that an impairment provision of \$37,041 should be recorded. The tables below provide details of first year net operating income (loss) and the discount rates used for valuing the hotel properties.

	Northwest Territories	Alberta	Saskatchewan	Ontario	Nova Scotia
Recoverable amount	\$8,800	\$60,700	\$51,500	\$38,850	\$69,800
Impairment provision	\$1,550	\$15,521	\$8,407	\$4,024	\$6,966
Cumulative impairment provision	\$1,550	\$48,088	\$35,937	\$4,024	\$6,966
Projected first year net operating loss	(\$248)	(\$2,846)	(\$2,097)	(\$1,172)	(\$830)
Discount rate (range)	9.3%	9.3% - 12.8%	9.8% - 10.8%	7.3% - 8.8%	9.3% - 9.8%

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

	Alberta	Saskatchewan
Recoverable amount	\$49,090	\$8,900
Impairment provision	\$19,648	\$3,275
Cumulative impairment provision	\$30,477	\$7,207
Projected first year net operating income	\$947	\$125
Discount rate (range)	9.3% - 12.0%	9.5%

NOTE 6

CO-OWNERSHIP INTERESTS

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

The following are the Company's significant co-ownerships as at December 31, 2020, and 2019:

Jointly Controlled Asset	Location	Asset Type	Company's Ownership	
			December 31, 2020	December 31, 2019
Bramalea City Centre	Brampton, ON	Retail	20.7%	20.7%
Woodbridge Square	Woodbridge, ON	Retail	50.0%	50.0%
77 Bloor Street West	Toronto, ON	Office	50.0%	50.0%
65 Overlea Boulevard	Toronto, ON	Office	95.0%	95.0%
2920 Matheson Boulevard	Mississauga, ON	Office	50.0%	50.0%
Performance Court	Ottawa, ON	Office	50.0%	50.0%
Standard Life Centre	Ottawa, ON	Office	50.0%	50.0%
Heritage Place	Ottawa, ON	Office	50.0%	50.0%
Jean Edmonds Towers	Ottawa, ON	Office	49.9%	49.9%
Scotia Place	Edmonton, AB	Office	20.0%	20.0%
505 Third Street	Calgary, AB	Office	50.0%	50.0%
945 Wilson ⁽¹⁾	Toronto, ON	Industrial	44.8%	32.0%
7474 McLean Road ⁽²⁾	Puslinch, ON	Industrial	—	50.0%
Toronto Airport Marriott	Toronto, ON	Hotel	94.8%	94.8%

⁽¹⁾ On September 11, 2020, the Company acquired an additional 12.8% interest in the co-ownership.

⁽²⁾ On March 25, 2020, the Company sold its 50% co-ownership interest (Note 4).

The following amounts included in these consolidated financial statements represent the Company's proportionate share of the assets and liabilities of the Company's co-ownership interests as at December 31, 2020, and 2019, and the results of operations for the years ended December 31, 2020, and 2019:

As at December 31	2020	2019
Assets	\$844,201	\$918,622
Liabilities	\$354,376	\$257,658

For the years ended December 31	2020	2019
Revenues	\$79,101	\$115,054
Expenses	(60,486)	(76,635)
Income before fair value adjustments	18,615	38,419
Fair value income (loss) on real estate properties	(51,673)	8,446
Net income (loss)	(\$33,058)	\$46,865

NOTE 7

EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

(a) Equity-accounted and Other Real Estate Fund Investments consist of the following:

As at December 31	2020	2019
Joint ventures	\$44,474	\$53,118
Associates	83,105	85,835
Equity-accounted investments	127,579	138,953
Other real estate fund investments	88,699	109,712
Equity-accounted and other fund investments	\$216,278	\$248,665

The following are the Company's significant equity-accounted investments as at December 31, 2020, and 2019:

Property/Investment	Principal Place of Business	Investment Type	Asset Type	Company's Ownership		Carrying Value	
				December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	50.0%	50.0%	\$20,496	\$23,705
Quinte Courthouse	Belleville, ON	Joint Venture	Office	50.0%	50.0%	2,896	2,994
Greypoint Capital L.P. ⁽¹⁾	Toronto, ON	Joint Venture	Other	22.4%	22.6%	10,064	12,028
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	50.0%	50.0%	7,295	9,595
Marriott Residence Inn	London, ON	Joint Venture	Hotel	50.0%	50.0%	3,723	4,796
Sunset & Gordon	Los Angeles, CA	Associate	Residential	59.1%	59.1%	64,180	63,803
MIL Industrial Fund II LP ⁽²⁾⁽³⁾	Various	Associate	Industrial	18.8%	18.8%	18,925	22,032
						\$127,579	\$138,953

⁽¹⁾ Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.

⁽²⁾ The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

⁽³⁾ The fund disposed of its 50% interest in one industrial property on March 25, 2020, for net proceeds of \$28,079.

Equity-accounted investments

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

As at December 31	2020	2019
Balance, beginning of year	\$138,953	\$177,480
Additions	15,532	64,914
Transfer ⁽¹⁾	—	(63,504)
Share of net loss	(7,470)	(28,825)
Distributions received	(18,115)	(6,778)
Foreign exchange loss	(1,321)	(4,334)
Balance, end of year	\$127,579	\$138,953

⁽¹⁾ The Company acquired the 51% interest not already owned in the Marquee at Block 37 on December 9, 2019, at which point the carrying value of the 49% interest was transferred to each respective balance sheet line item including: income producing properties \$172,597 (Note 4) and mortgages payable \$109,189.

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

As at December 31	2020			2019		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Non-current assets	\$174,935	\$352,959	\$527,894	\$193,504	\$354,148	\$547,652
Current assets	59,828	9,491	69,319	63,988	12,237	76,225
Total assets	\$234,763	\$362,450	\$597,213	\$257,492	\$366,385	\$623,877
Non-current liabilities	\$111,007	\$42,984	\$153,991	\$64,007	\$32,584	\$96,591
Current liabilities	4,261	111,687	115,948	56,967	108,861	165,828
Total liabilities	\$115,268	\$154,671	\$269,939	\$120,974	\$141,445	\$262,419
Net assets	\$119,495	\$207,779	\$327,274	\$136,518	\$224,940	\$361,458
Equity-accounted investments	\$44,474	\$83,105	\$127,579	\$53,118	\$85,835	\$138,953

For the years ended December 31	2020			2019		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	\$29,454	\$9,254	\$38,708	\$35,352	\$43,905	\$79,257
Expenses	(24,834)	(4,958)	(29,792)	(26,917)	(41,043)	(67,960)
Fair value gain (loss) on real estate properties, net	(9,236)	13,628	4,392	(12,368)	(65,427)	(77,795)
Net income (loss) for the year	(\$4,616)	\$17,924	\$13,308	(\$3,933)	(\$62,565)	(\$66,498)
Income (loss) in equity-accounted investments	(\$3,904)	(\$3,566)	(\$7,470)	(\$2,708)	(\$26,117)	(\$28,825)

(b) Income Recognized from Other Fund Investments:

Other Real Estate Fund Investments

For the years ended December 31	2020	2019
Distribution income	\$333	\$2,920
Fair value gain (loss) for the year (Note 19)	(5,398)	7,086
Income (loss) from other real estate fund investments	(\$5,065)	\$10,006

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

During the year ended December 31, 2020, the Company received a distribution in the amount of \$16,249 (US\$12,762) in connection with the disposal of a residential property held within the Company's fund investments.

The underlying assets are appraised using a number of approaches that principally include a discounted cash flow analysis or a direct capitalization of income method. Using the direct capitalization approach, fund properties were valued using capitalization rates in the range of 5.0% to 5.3% (2019 - 4.3% to 5.3%), resulting in an overall weighted average capitalization rate of 5.1% (2019 - 4.5%). Under the discounted cash flow method, fund properties were valued using discount rates in the range of 6.1% to 7.6% (2019 - 6.1% to 7.2%), resulting in an overall weighted average discount rate of 6.8% (2019 - 6.7%) and terminal cap rates in the range of 4.6% to 5.9% (2019 - 4.9% to 5.9%), resulting in an overall weighted average terminal cap rate of 5.3% (2019 - 5.4%).

NOTE 8**OTHER ASSETS**

Other assets consist of the following:

As at December 31	2020	2019
Investment in marketable securities	\$115,823	\$142,911
Finance lease receivable	57,185	56,574
Accrued pension benefit asset (Note 25)	55,186	83,554
Intangible assets, net	32,195	36,501
Restricted cash	26,159	30,449
Goodwill	24,488	24,488
Capital assets, net	19,626	20,435
Inventory	2,922	3,467
Right-of-use asset - office lease	1,926	2,603
Other	2,616	3,036
	\$338,126	\$404,018

Finance Lease Receivable

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

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

As at December 31	2020	2019
Within 12 months	\$3,322	\$3,256
2 to 5 years	17,631	17,285
Over 5 years	164,264	167,932
Total minimum lease payments	185,217	188,473
Less: Future finance income	(128,032)	(131,899)
Present value of minimum lease payments	\$57,185	\$56,574

NOTE 9**AMOUNTS RECEIVABLE**

Amounts receivable consist of the following:

As at December 31	2020	2019
Tenant receivables	\$48,951	\$17,487
Unbilled other tenant receivables	10,399	12,639
Receivables from related parties (Note 21(c))	5,502	5,504
Income taxes receivable	8,131	8,120
Other receivables	30,705	37,040
Allowance for expected credit loss	(16,702)	(2,719)
	86,986	78,071
Canada Emergency Wage Subsidy ("CEWS")	5,937	—
	\$92,923	\$78,071

Government grants**(a) Canada Emergency Wage Subsidy**

On April 11, 2020, the Canada Emergency Wage Subsidy was enacted, which provides a subsidy for each employee employed between March 15 to June 6, 2020. Subsequently, the Government of Canada extended CEWS to June 2021. The subsidy for the claim periods ending on July 4, 2020 is equal to 75% of an employee's weekly remuneration, up to a maximum of \$847 (in actual dollars) per week per employee and the subsidy rate varies,

depending on the decline in revenue for subsequent claim periods. A company, or a group of companies under common control, will become eligible for the program if they've experienced a reduction in revenue during the qualification period.

The Company and associated related party group under common control with the Company, including Morguard's parent company, Paros Enterprises Limited, have satisfied certain eligibility criteria, including (among others) a significant decline in revenue due to the temporary closures of non-essential services. The Company will continue to assess its eligibility for subsequent claim periods.

For the year ended December 31, 2020, the Company recorded \$24,503 as a deduction of the related expense, of which \$2,339, \$14,079 and \$8,085 are a deduction of property operating costs, hotel operating expenses and property management and corporate expenses, respectively.

(b) 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 businesses and commercial landlords who are experiencing financial difficulties during the COVID-19 pandemic.

Over the course of the program, property owners will reduce rent by at least 75% for the months of April through September 2020 for their small business tenants. 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 were forgiven on December 31, 2020, as the Company agreed to the loans specified terms, including reducing the small business tenants' rent by at least 75% under a rent reduction agreement and the landlord must follow the terms and conditions of the loan, including complying with the rent reduction agreement and ensuring the attestation and application (including supporting documentation) is accurate and truthful. The Company finalized and received all applications under the CECRA program.

During the year, the Company filed CECRA applications for 634 tenants, comprising the landlord's portion and the Government of Canada's loan forgiveness portion. The loan amount forgiven was recorded as a deduction or offset to bad debt expense within property operating costs, representing approximately 50% of rent payable by eligible small business tenants during the months of April through September 2020.

For the years ended December 31	2020	2019
Total CECRA applications	\$15,150	\$—
Government of Canada loan forgiveness	(10,100)	—
Landlord portion, net bad debt expense	\$5,050	\$—

NOTE 10

MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at December 31	2020	2019
Mortgages payable	\$4,282,087	\$4,375,947
Mark-to-market adjustments, net	7,396	11,948
Deferred financing costs	(20,109)	(22,616)
	\$4,269,374	\$4,365,279
Current	\$480,340	\$583,611
Non-current	3,789,034	3,781,668
	\$4,269,374	\$4,365,279
Range of interest rates	2.03 - 7.08%	2.25 - 8.95%
Weighted average contractual interest rate	3.58%	3.80%
Estimated fair value of mortgages payable	\$4,552,081	\$4,406,348

As at December 31, 2020, approximately 91% of the Company's real estate and hotel properties, and related rental revenue, have been pledged as collateral for the mortgages payable.

The aggregate principal repayments and balances maturing of the mortgages payable as at December 31, 2020, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Interest Rate
2021	\$114,834	\$481,640	\$596,474	4.21%
2022	110,914	396,008	506,922	3.52%
2023	88,802	635,657	724,459	3.57%
2024	75,806	394,970	470,776	3.60%
2025	60,955	393,586	454,541	3.30%
Thereafter	159,728	1,369,187	1,528,915	3.49%
	\$611,039	\$3,671,048	\$4,282,087	3.58%

The Company's first mortgages are registered against specific real estate assets and hotel properties. As at December 31, 2020, mortgages payable mature between 2021 and 2058 and have a weighted average term to maturity of 4.8 years (2019 - 5.1 years) and approximately 98% of the Company's mortgages have fixed interest rates.

Some of the Company's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at December 31, 2020, the Company was not in compliance with three (2019 - four) debt ratio covenants affecting four (2019 - five) mortgage loans, all of which are secured by hotel properties amounting to \$102,081 (2019 - \$80,877). None of the lenders have demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes \$45,073 scheduled to retire after December 31, 2021.

NOTE 11 DEBENTURES PAYABLE

The Company's debentures consist of the following:

As at December 31	2020	2019
Unsecured debentures	\$1,022,152	\$1,046,444
Convertible debentures	194,322	193,503
	\$1,216,474	\$1,239,947
Current	\$314,010	\$199,778
Non-current	902,464	1,040,169
	\$1,216,474	\$1,239,947

(a) Unsecured debentures

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

As at December 31	Maturity Date	Coupon Interest Rate	2020	2019
Series B senior unsecured debentures	November 18, 2020	4.013%	\$—	\$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	200,000	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	200,000	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	225,000	225,000
Series F senior unsecured debentures	November 27, 2024	4.204%	225,000	225,000
Series G senior unsecured debentures	September 28, 2023	4.402%	175,000	—
Unamortized financing costs			(2,848)	(3,556)
			\$1,022,152	\$1,046,444
Current			\$199,853	\$199,778
Non-current			822,299	846,666
			\$1,022,152	\$1,046,444

On November 18, 2016, the Company issued \$200,000 (net proceeds including issuance costs - \$199,198) of Series B senior unsecured debentures due on November 18, 2020. Interest on the Series B senior unsecured debentures is payable semi-annually, not in advance, on May 18 and November 18 of each year. On November 18, 2020, the Series B unsecured debentures were fully repaid on maturity.

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

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

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

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

On September 28, 2020, the Company issued \$175,000 (net proceeds including issuance costs - \$174,303) of Series G senior unsecured debentures due on September 28, 2023. Interest on the Series G senior unsecured debentures is payable semi-annually, not in advance, on March 28 and September 28 of each year, commencing on March 28, 2021. The Company has the option to redeem the Series G senior unsecured debentures at a redemption price equal to the greater of the Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 1.03%.

For the year ended December 31, 2020, interest on the Unsecured Debentures of \$45,964 (2019 - \$35,651) is included in interest expense (Note 18).

(b) Convertible debentures

Convertible debentures consist of the following:

As at December 31	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	2020	2019
Morguard REIT	December 31, 2021	\$20.40	4.50%	\$175,000	\$60,000	\$114,157	\$112,105
Morguard Residential REIT ⁽¹⁾	March 31, 2023	\$20.20	4.50%	\$85,500	\$5,000	80,165	81,398
						\$194,322	\$193,503
Current						\$114,157	\$—
Non-current						80,165	193,503
						\$194,322	\$193,503

⁽¹⁾ As at December 31, 2020, the liability includes the fair value of the conversion option of \$1,577 (2019 - \$3,472).

Morguard REIT

On December 30, 2016, Morguard REIT issued \$175,000 principal amount of 4.50% convertible unsecured subordinated debentures, and incurred issue costs of \$5,137 for net proceeds of \$169,863. Interest is payable semi-annually, not in advance, on June 30 and December 31 of each year. The convertible debentures, with the exception of \$3,242, the value assigned to the holder's conversion option, have been recorded as debt on the consolidated balance sheets. Morguard owns \$60,000 aggregate principal amount of the 4.50% convertible unsecured subordinated debentures.

Morguard Residential REIT

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

For the year ended December 31, 2020, interest on convertible debentures net of accretion of \$9,797 (2019 - \$12,089) is included in interest expense (Note 18).

NOTE 12

MORGUARD RESIDENTIAL REIT UNITS

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

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

As at December 31, 2020, the Company valued the non-controlling interest in the Morguard Residential REIT Units at \$446,091 (2019 - \$516,462) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value gain for the year ended December 31, 2020 of \$49,269 (2019 - loss of \$43,497), in the consolidated statements of income (loss) (Note 19).

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

For the years ended December 31	2020	2019
Fair value gain (loss) on Morguard Residential REIT Units	\$70,996	(\$23,889)
Distributions to external Unitholders (Note 3)	(21,727)	(19,608)
Fair value gain (loss) on Morguard Residential REIT Units	\$49,269	(\$43,497)

NOTE 13

LEASE LIABILITIES

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

As at December 31	2020	2019
Balance, beginning of year	\$166,144	\$9,754
Adoption of IFRS 16	—	161,614
Interest on lease liabilities (Note 18)	9,440	9,679
Payments	(11,162)	(11,778)
Additions	—	725
Dispositions	—	(684)
Extinguishment ⁽¹⁾	—	(2,664)
Foreign exchange gain	(167)	(502)
Balance, end of year	\$164,255	\$166,144
Current (Note 14)	1,799	1,703
Non-current	162,456	164,441
	\$164,255	\$166,144
Weighted average borrowing rate	5.72%	5.72%

⁽¹⁾ On December 19, 2019, the Company acquired the remaining 50% interest in the underlying property where the Company has an office lease (Note 4). Since the property is now 100% owned, the lease liability and right-of-use asset (office lease) relating to the 50% interest previously not owned by the Company have been extinguished.

Future minimum lease payments under lease liabilities are as follows:

As at December 31	2020	2019
Within 12 months	\$11,120	\$11,127
2 to 5 years	42,585	43,335
Over 5 years	353,577	364,195
Total minimum lease payments	\$407,282	\$418,657
Less: future interest costs	(243,027)	(252,513)
Present value of minimum lease payments	\$164,255	\$166,144

NOTE 14

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at December 31	2020	2019
Accounts payable and accrued liabilities	\$178,828	\$185,904
Tenant deposits	27,931	27,850
SARs liability	10,779	24,525
Lease liability (Note 13)	1,799	1,703
Other	1,231	2,691
	\$220,568	\$242,673

NOTE 15**BANK INDEBTEDNESS**

As at December 31, 2020, the Company has operating lines of credit totalling \$593,500 (2019 - \$374,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at December 31, 2020, the maximum amount that can be borrowed on the operating lines of credit is \$578,554 (2019 - \$356,169), which includes deducting issued letters of credit in the amount of \$8,742 (2019 - \$13,790) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at December 31, 2020, the Company had borrowed \$156,802 (2019 - \$101,100) on its operating lines of credit.

During the year ended December 31, 2020, the Company amended bank credit agreements under its existing credit facilities to provide for an additional availability of \$142,500 (of which \$100,000 expires during the second quarter of 2021) and where applicable to allow for a higher margin calculation. In addition, the Company entered into a revolving credit facility allowing a maximum of \$77,000 that can be borrowed and is secured by specific hotel properties.

The bank credit agreements include certain restrictive undertakings by the Company. As at December 31, 2020, other than as described above, the Company is in compliance with all undertakings.

NOTE 16**SHAREHOLDERS' EQUITY****(a) Share Capital Authorized**

Unlimited common shares, no par value.

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

Issued and Fully Paid Common Shares	Number (000s)	Amount
Balance, December 31, 2018	11,294	\$102,436
Common shares repurchased through the Company's NCIB	(11)	(100)
Dividend reinvestment plan	—	90
Balance, December 31, 2019	11,283	\$102,426
Common shares repurchased through the Company's NCIB	(174)	(1,583)
Dividend reinvestment plan	—	99
Balance, December 31, 2020	11,109	\$100,942

The Company had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 564,117 common shares. The program expired on September 21, 2020. On September 17, 2020, the Company obtained the approval of the TSX under its NCIB to purchase up to 557,812 common shares, being approximately 5% of the issued and outstanding common shares, and the program expires on September 21, 2021. The daily repurchase restriction for the common shares is 1,000. During the year ended December 31, 2020, 174,331 common shares were purchased for cash consideration of \$22,549 at a weighted average price of \$129.35 per common share.

Total dividends declared during the year ended December 31, 2020, amounted to \$6,714, or \$0.60 per common share (2019 - \$6,770, or \$0.60 per common share). On February 25, 2021, the Company declared a common share dividend of \$0.15 per common share to be paid in the first quarter of 2021.

(b) Contributed Surplus

During the year ended December 31, 2020, the Company acquired 20,668,856 common shares of Temple for cash consideration of \$44,149. The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the year ended December 31, 2020, amounted to \$23,235 and the amount has been recorded within retained earnings.

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

During the year ended December 31, 2019, Temple purchased for cancellation 27,722 common shares for cash consideration of \$49 and the amount has been recorded within retained earnings.

During the year ended December 31, 2020, the Company acquired 3,520,153 Units of Morguard REIT (2019 - nil Units) under its distribution reinvestment program for non-cash consideration of \$17,784 (2019 - \$nil). The difference between the non-cash consideration and the carrying value of the non-controlling interest acquired for the year ended December 31, 2020, amounted to \$24,044 (2019 - \$nil) and the amount has been recorded within retained earnings.

During the year ended December 31, 2020, Morguard REIT acquired 197,300 Units (2019 - nil Units) for cash consideration of \$953 (2019 - \$nil) and the amount has been recorded within retained earnings.

During the year ended December 31, 2020, the Company acquired nil Units of Morguard REIT (2019 – 563,441 Units) for cash consideration of \$nil (2019 - \$6,616). The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the year ended December 31, 2020 amounted to \$nil (2019 - \$6,418) and the amount has been recorded within retained earnings.

(c) Stock Appreciation Rights Plan

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

As at December 31, 2020

Date of Grant	Exercise Price	Issued	Redeemed	Cancelled	Outstanding
March 20, 2008	\$30.74	200,000	(66,000)	(61,500)	72,500
November 2, 2010	\$43.39	55,000	(6,500)	(8,500)	40,000
May 13, 2014	\$137.90	25,000	(2,000)	(8,000)	15,000
May 13, 2015	\$153.82	10,000	—	—	10,000
January 11, 2017	\$179.95	90,000	(1,500)	(3,500)	85,000
May 18, 2018	\$163.59	125,000	—	—	125,000
August 8, 2018	\$168.00	20,000	—	—	20,000
November 8, 2018	\$184.00	10,000	—	—	10,000
Total		535,000	(76,000)	(81,500)	377,500

During the year ended December 31, 2020, the Company recorded a fair value adjustment to reduce compensation expense of \$12,161 (2019 - increase in compensation expense of \$4,598). The fair value adjustment is included in property management and corporate expenses in the consolidated statements of income (loss), and the liability is classified as accounts payable and accrued liabilities (Note 14).

The fair value for the SARs was calculated using the Black-Scholes option pricing model. In determining the fair value of the SARs, management is required to make assumptions that could have a material impact on the valuation. The following are the assumptions that were used in determining the fair value as at December 31, 2020: a dividend yield of 0.52% (2019 - 0.30%), expected volatility of approximately 30.13% (2019 - 21.91%) and the 10-year Bank of Canada Bond Yield of 0.70% (2019 - 1.61%).

(d) Accumulated Other Comprehensive Income

As at December 31, 2020, and 2019, accumulated other comprehensive income consists of the following amounts:

As at December 31	2020	2019
Actuarial gain on defined benefit pension plans	\$28,882	\$49,410
Unrealized foreign currency translation gain	133,436	158,494
	\$162,318	\$207,904

NOTE 17**REVENUE**

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

For the years ended December 31	2020	2019
Rental income	\$494,807	\$486,450
Realty taxes and insurance	141,941	134,347
Common area maintenance recoveries	100,074	104,804
Property management and ancillary income	151,502	146,622
	\$888,324	\$872,223

The components of revenue from hotel properties are as follows:

For the years ended December 31	2020	2019
Room revenue	\$74,725	\$185,016
Other hotel revenue	23,321	60,266
	\$98,046	\$245,282

The components of management and advisory fees are as follows:

For the years ended December 31	2020	2019
Property and asset management fees	\$33,649	\$38,971
Other fees	8,431	13,430
	\$42,080	\$52,401

Included in property management and corporate expenses are services provided under third party managed contracts, which are recoverable, amounting to \$17,577 (2019 - \$23,159).

NOTE 18**INTEREST EXPENSE**

The components of interest expense are as follows:

For the years ended December 31	2020	2019
Interest on mortgages	\$161,228	\$163,812
Interest on debentures payable, net of accretion (Note 11)	55,761	47,740
Interest on bank indebtedness	5,259	5,089
Interest on loans payable and other	1,510	2,810
Interest on lease liabilities (Note 13)	9,440	9,679
Amortization of mark-to-market adjustments on mortgages, net	(4,552)	(5,501)
Amortization of deferred financing costs	8,772	7,268
Loss on extinguishment of mortgages payable	—	561
	237,418	231,458
Less: Interest capitalized to properties under development	(697)	(563)
	\$236,721	\$230,895

NOTE 19**FAIR VALUE GAIN (LOSS), NET**

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

For the years ended December 31	2020	2019
Fair value gain (loss) on real estate properties, net (Note 4)	(\$511,472)	\$27,057
Financial assets (liabilities):		
Fair value gain (loss) on conversion option of MRG convertible debentures (Note 11)	1,895	(1,003)
Fair value gain (loss) on MRG Units (Note 12)	49,269	(43,497)
Fair value gain (loss) on other real estate fund investments (Note 7(b))	(5,398)	7,086
Fair value gain (loss) on investment in marketable securities	(28,239)	18,088
Total fair value gain (loss), net	(\$493,945)	\$7,731

NOTE 20**OTHER INCOME (EXPENSE)**

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

For the years ended December 31	2020	2019
Foreign exchange gain (loss)	(\$61)	\$588
Gain on sale of hotel property (Note 5)	2,067	508
Other income (expense)	(773)	1,739
	\$1,233	\$2,835

NOTE 21**RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in Notes 7 and 11(a), related party transactions also include the following:

(a) Paros Enterprises Limited (“Paros”)

Paros is the majority shareholder and ultimate parent of the Company. Paros is owned by the Company’s Chairman and Chief Executive Officer, Mr. K. Rai Sahi. The Company entered into a demand loan agreement with Paros that provides for the Company to borrow up to \$22,000. The total loan payable outstanding from Paros as at December 31, 2020, and 2019 was \$nil. During the year ended December 31, 2020, the Company incurred net interest expense of \$nil (2019 - \$71).

(b) TWC Enterprises Limited (“TWC”)

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the year ended December 31, 2020, the Company received a management fee of \$1,311 (2019 - \$1,305), and paid rent and operating expenses of \$661 (2019 - \$730).

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to \$50,000 at either the prime rate or the bankers’ acceptance rate plus applicable stamping fees. The total loan payable as at December 31, 2020 was \$20,000 (2019 - \$33,679). During the year ended December 31, 2020, the Company paid net interest of \$452 (2019 - \$1,489).

(c) Share/Unit Purchase and Other Loans

As at December 31, 2020, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of \$5,502 (2019 - \$5,504) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable in the consolidated balance sheets. As at December 31, 2020, the fair market value of the common shares/Units held as collateral is \$58,758.

(d) Key Management Compensation

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

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

For the years ended December 31	2020	2019
Salaries and other short-term employee benefits	\$4,727	\$4,478
SARs	(5,501)	1,103
	(\$774)	\$5,581

NOTE 22

INCOME TAXES

(a) Income Tax Expense

For the years ended December 31	2020	2019
Income (loss) before income taxes	(\$319,784)	\$225,491
Statutory rate	26.5%	26.5%
Income taxes at the Canadian and provincial income tax rate	(\$84,743)	\$59,755
Increase (decrease) in income taxes due to:		
Non-deductible (non-taxable) items	(7,136)	(195)
Non-taxable income (loss) of Morguard Residential REIT and Morguard REIT	42,671	(23,013)
Impact of subsidiary tax rate differential	(36,743)	1,324
Impact of change in tax rates	1,207	(8,363)
Non-recognition of the benefit of tax losses	12,862	8,838
Recognition of previously unrecognized benefit of tax losses	(2,384)	(2,414)
Adjustments to income tax estimates	2,440	—
Other	2,092	763
Income tax (recovery) expense	(\$69,734)	\$36,695

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

	December 31, 2019	Net income (loss)	Recognized in OCI	Equity and other	December 31, 2020
Real estate properties	\$722,477	(\$85,047)	(\$3,818)	\$—	\$633,612
Investments	(10,949)	765	—	3,695	(6,489)
Pension Assets	23,246	(118)	(7,369)	—	15,759
Other	(988)	6,406	(75)	—	5,343
Total net deferred tax liabilities	\$733,786	(\$77,994)	(\$11,262)	\$3,695	\$648,225

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

(c) The Company's Tax Losses

As at December 31, 2020, the Company's U.S. subsidiaries have total net operating losses of approximately US\$66,736 (2019 - US\$68,362) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which the deductible temporary difference can be utilized. The net operating losses expire in varying years commencing 2030. As at December 31, 2020, the Company's U.S. subsidiaries have

US\$26,808 (2019 - US\$12,904) of net operating losses of which deferred tax assets were recognize and the Company's U.S. subsidiaries have a total of US\$5,046 (2019 - US\$14,329) of unutilized interest expense deductions, of which deferred tax assets were recognized.

As at December 31, 2020, the Company's Canadian subsidiaries have total net operating losses of approximately \$234,422 (2019 - \$205,433) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which they can be utilized. These losses expire in various years commencing 2022. As at December 31, 2020, the Company has other Canadian temporary differences, of which no deferred tax asset was recognized for approximately \$63,928 (2019 - \$43,952). These other temporary differences have no expiration date.

(d) Other Temporary Differences

As at December 31, 2020, temporary differences associated with investments in subsidiaries and joint ventures, for which no deferred tax liability has been recognized, amounts to \$182,287 (2019 - \$268,893).

NOTE 23

NET INCOME (LOSS) PER COMMON SHARE

For the years ended December 31	2020	2019
Net income (loss) attributable to common shareholders	(\$98,918)	\$186,939
Weighted average number of common shares outstanding (000s) - basic and diluted	11,205	11,285
Net income (loss) per common share - basic and diluted	(\$8.83)	\$16.57

NOTE 24

CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

For the years ended December 31	2020	2019
Fair value loss (gain) on real estate properties, net	\$511,472	(\$26,912)
Fair value loss (gain) on conversion option of MRG convertible debentures (Note 19)	(1,895)	1,003
Fair value loss (gain) on MRG Units (Note 12)	(70,996)	23,889
Fair value loss (gain) on other real estate investment funds (Note 19)	5,398	(7,086)
Fair value loss (gain) on investment in marketable securities (Note 19)	28,239	(18,088)
Equity loss from investments	7,470	28,825
Amortization of hotel properties and other	35,295	36,152
Amortization of deferred financing costs (Note 18)	8,772	7,268
Amortization of mark-to-market adjustments on mortgages, net (Note 18)	(4,552)	(5,501)
Loss on extinguishment of mortgages payable (Note 18)	—	561
Amortization of tenant incentive	1,896	2,084
Stepped rent - adjustment for straight-line method	(665)	793
Deferred income taxes	(77,994)	25,273
Accretion of convertible debentures	999	2,516
Gain on sale of hotel property (Note 20)	(2,067)	(508)
Provision for impairment	37,041	22,923
	\$478,413	\$93,192

(b) Net Change in Operating Assets and Liabilities

For the years ended December 31	2020	2019
Amounts receivable	(\$23,307)	(\$260)
Prepaid expenses and other	(13,243)	3,224
Accounts payable and accrued liabilities	(6,464)	(1,795)
Net change in operating assets and liabilities	(\$43,014)	\$1,169

(c) Supplemental Cash Flow Information

For the years ended December 31	2020	2019
Interest paid	\$226,821	\$241,455
Interest received	1,913	5,478
Income taxes paid	9,262	22,905

During the year ended December 31, 2020, the Company issued non-cash dividends under the distribution reinvestment plan of \$99 (2019 - \$90).

(d) Reconciliation of Liabilities Arising from Financing Activities

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

	Mortgages payable	Unsecured debentures	Convertible debentures	Lease liabilities	Loans payable	Bank indebtedness	Total
Balance, beginning of year	\$4,365,279	\$1,046,444	\$193,503	\$166,144	\$33,679	\$101,100	\$5,906,149
Repayments	(111,140)	—	—	(1,722)	(35,234)	(422,087)	(570,183)
New financing, net	443,160	174,303	—	—	20,000	477,789	1,115,252
Lump-sum repayments	(380,298)	(200,000)	—	—	—	—	(580,298)
Non-cash changes	(16,064)	1,405	819	—	—	—	(13,840)
Foreign exchange	(31,563)	—	—	(167)	1,555	—	(30,175)
Balance, December 31, 2020	\$4,269,374	\$1,022,152	\$194,322	\$164,255	\$20,000	\$156,802	\$5,826,905

NOTE 25

EMPLOYEE FUTURE BENEFITS

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

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

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

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

Membership is a requirement after a defined term of employment and age. Funding of the MIL Plan is provided by contributions from Morguard Investments Limited (“MIL”). Certain employees who commenced employment prior to January 1, 1997, elected to contribute to the MIL Plan and receive a higher benefit. The most recent actuarial valuation for the MIL Plan was as at December 31, 2019.

The significant actuarial assumptions adopted in measuring the Company's defined benefit pension plans for the years ended December 31, 2020, and 2019, are as follows:

For the years ended December 31	2020		2019	
	Morguard	MIL	Morguard	MIL
Assumptions for defined benefit pension obligation				
Discount rate	2.40%	2.40%	3.10%	3.10%
Rate of price inflation	1.49%	1.49%	1.35%	1.35%
Rate of pension increases - pre-retirement	—	0.60%	—	1.25%
Rate of pension increases - post-retirement	—	0.60%	—	1.25%
Assumptions for defined benefit expense				
Discount rate	3.10%	3.10%	3.75%	3.75%
Rate of price inflation	1.35%	1.35%	1.40%	1.40%
Rate of pension increases - pre-retirement	—	1.25%	—	1.35%
Rate of pension increases - post-retirement	—	1.25%	—	1.35%

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

As at December 31	2020			2019		
	Morguard	MIL	Total	Morguard	MIL	Total
Accrued benefit obligations						
Balance at beginning of year	(\$51,948)	(\$39,418)	(\$91,366)	(\$51,949)	(\$37,344)	(\$89,293)
Current service cost	(6)	—	(6)	(6)	—	(6)
Interest cost	(1,551)	(1,200)	(2,751)	(1,874)	(1,377)	(3,251)
Benefits paid	6,431	1,251	7,682	5,029	2,254	7,283
Changes in:						
Financial assumptions	(3,684)	(111)	(3,795)	(3,169)	(2,970)	(6,139)
Experience adjustments	40	1,165	1,205	21	19	40
Balance at end of year	(\$50,718)	(\$38,313)	(\$89,031)	(\$51,948)	(\$39,418)	(\$91,366)
Plan assets						
Fair value at beginning of year	\$131,150	\$43,770	\$174,920	\$122,548	\$40,726	\$163,274
Expected return on plan assets	3,960	1,332	5,292	4,468	1,501	5,969
Administration expenses	(496)	(320)	(816)	(451)	(180)	(631)
Return on plan assets	(18,765)	(6,276)	(25,041)	12,028	3,977	16,005
Employer contributions	(2,456)	—	(2,456)	(2,414)	—	(2,414)
Benefits paid	(6,431)	(1,251)	(7,682)	(5,029)	(2,254)	(7,283)
Balance at end of year	\$106,962	\$37,255	\$144,217	\$131,150	\$43,770	\$174,920
Net assets (liability)	\$56,244	(\$1,058)	\$55,186	\$79,202	\$4,352	\$83,554

In 2020, Morguard contributed \$2,456 to the defined contribution plan (2019 - \$2,414).

Details of the defined benefit expense (income) recorded in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2020, and 2019, are provided below:

For the years ended December 31	2020			2019		
	Morguard	MIL	Total	Morguard	MIL	Total
Components of defined benefit cost						
Current service cost	\$6	\$—	\$6	\$6	\$—	\$6
Interest cost	1,551	1,200	2,751	1,874	1,377	3,251
Expected return on plan assets	(3,960)	(1,332)	(5,292)	(4,468)	(1,501)	(5,969)
Administrative expenses and taxes	375	175	550	375	175	550
Net benefit plan expense (income)	(\$2,028)	\$43	(\$1,985)	(\$2,213)	\$51	(\$2,162)

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

For the years ended December 31	2020			2019		
	Morguard	MIL	Total	Morguard	MIL	Total
Changes in:						
Financial assumptions	\$3,684	\$111	\$3,795	\$3,169	\$2,970	\$6,139
Experience adjustments	(40)	(1,165)	(1,205)	(21)	(19)	(40)
Return of plan assets	18,886	6,421	25,307	(11,952)	(3,972)	(15,924)
Net actuarial loss (gain) on defined benefit pension plans	\$22,530	\$5,367	\$27,897	(\$8,804)	(\$1,021)	(\$9,825)

Reconciliation of net accrued pension assets for the years ended December 31, 2020, and 2019, is as follows:

For the years ended December 31	2020			2019		
	Morguard	MIL	Total	Morguard	MIL	Total
Net defined benefit asset, beginning of the year	\$79,202	\$4,352	\$83,554	\$70,599	\$3,382	\$73,981
Net benefit plan income (expense)	2,028	(43)	1,985	2,213	(51)	2,162
Net actuarial gain (loss)	(22,530)	(5,367)	(27,897)	8,804	1,021	9,825
Employer contribution	(2,456)	—	(2,456)	(2,414)	—	(2,414)
Net defined benefit asset, end of the year	\$56,244	(\$1,058)	\$55,186	\$79,202	\$4,352	\$83,554

Details of the defined benefit obligation by participant status as at December 31, 2020, and 2019, are as follows:

For the years ended December 31	2020			2019		
	Morguard	MIL	Total	Morguard	MIL	Total
Actives, suspended and long-term disability	\$12,181	\$18,943	\$31,124	\$11,952	\$26,664	\$38,616
Vested deferred	2,201	3,566	5,767	2,268	3,134	5,402
Retirees	36,336	15,804	52,140	37,728	9,620	47,348
Total	\$50,718	\$38,313	\$89,031	\$51,948	\$39,418	\$91,366

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

For the years ended December 31	2020	2019
Cash and cash equivalents	\$2,117	\$2,549
Fixed-income securities	34,343	36,226
Canadian equities	84,790	112,521
Canadian pooled funds	22,967	23,624
Total investments	\$144,217	\$174,920

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

Year ended December 31, 2020	Increase (Decrease) in Pension Benefit Obligation		
	Morguard	MIL	Total
Discount rate			
Discount rate -100 basis points	\$6,190	\$5,720	\$11,910
Discount rate +100 basis points	(5,108)	(4,615)	(9,723)
Pension increase rate			
Pension increase rate -50 basis points	—	(2,541)	(2,541)
Pension increase rate +50 basis points	—	2,806	2,806
Mortality			
Mortality - life expectancy for member age 65 -1 year	(2,781)	(1,476)	(4,257)
Mortality - life expectancy for member age 65 +1 year	2,756	1,453	4,209

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

Year ended December 31, 2020	Morguard	MIL	Total
Year 1	\$3,768	\$1,512	\$5,280
Year 2	3,703	1,645	5,348
Year 3	3,663	1,643	5,306
Year 4	3,593	1,667	5,260
Year 5	3,508	1,679	5,187
Next 5 years	16,093	9,429	25,522

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

NOTE 26
CONTINGENCIES
(a) Commitments

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

2021	\$15,551
2022	14,481
2023	13,655
2024	11,913
2025	10,700
Thereafter	\$448,640

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

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

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

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

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

The Company has four other ground leases that expire between May 31, 2022 and July 21, 2069. The Company is required to pay an annual base rent totalling \$490. In addition, the Company has a commitment to purchase the land of one of the ground leases that expires on May 31, 2022. The purchase price of the land will be based on the market value of the land at the end of the lease term.

The Company has entered into various leasing agreements and contracts for the development of properties. As at December 31, 2020, committed leasing costs, capital and development expenditures are estimated to be \$7,057.

(b) Contingencies

As at December 31, 2020, the Company has issued irrevocable letters of credit relating to normal course development activity amounting to \$13,880 (2019 - \$18,274).

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

(c) Franchise Agreements

Under the terms of the franchise agreements expiring through July 31, 2032, annual payments for franchise fees are payable for 24 hotel properties owned by the Company. The franchise fees paid are based on a percentage of revenue and fixed annual fees.

NOTE 27**MANAGEMENT OF CAPITAL**

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

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

The total managed capital for the Company as at December 31, 2020, and 2019, is summarized below:

As at December 31	2020	2019
Mortgages payable, principal balance	\$4,282,087	\$4,375,947
Unsecured Debentures, principal balance	1,025,000	1,050,000
Convertible debentures, principal balance	195,500	195,500
Loans payable	20,000	33,679
Bank indebtedness	156,802	101,100
Lease liabilities	164,255	166,144
Shareholders' equity	3,372,352	3,548,906
	\$9,215,996	\$9,471,276

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

The Company's Unsecured Debentures contain covenants that are calculated on a non-consolidated basis, which represents the Company's consolidated results prepared in accordance with IFRS as shown on the Company's most recently published annual audited consolidated financial statements, adjusted, as required, to account for the Company's public entity investments in Morguard Residential REIT, Morguard REIT and Temple (until the Company's privatization of Temple on February 18, 2020) using the equity method. The covenants that the Company must maintain are a non-consolidated interest coverage ratio above 1.65 times, a non-consolidated debt to gross book value ratio not to exceed 65% and a minimum non-consolidated equity requirement of at least \$300,000. If the

Company does not meet these covenants, the Unsecured Debentures will become immediately due and payable unless the Company is able to remedy the default or obtain a waiver from debenture holders. The Company is in compliance with all Unsecured Debenture covenants.

NOTE 28

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2020, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2020, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at \$4,552,081 (2019 - \$4,406,348), compared with the carrying value of \$4,282,087 (2019 - \$4,375,947). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price (Level 1). As at December 31, 2020, the fair value of the Unsecured Debentures has been estimated at \$1,039,322 (2019 - \$1,070,033) compared with the carrying value of \$1,025,000 (2019 - \$1,050,000).

The fair value of the convertible debentures liability is based on their market trading prices (Level 1). As at December 31, 2020, the fair value of the convertible debentures before deferred financing costs has been estimated at \$196,539 (2019 - \$202,838), compared with the carrying value of \$195,500 (2019 - \$195,500).

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using December 31, 2020, market rates for debt on similar terms (Level 3). Based on these assumptions, as at December 31, 2020, the fair value of the finance lease receivable has been estimated at \$57,185 (2019 - \$56,574).

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

As at	December 31, 2020			December 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Real estate properties	\$—	\$—	\$9,680,408	\$—	\$—	\$10,201,283
Investments in marketable securities	115,823	—	—	142,911	—	—
Investments in real estate funds	—	—	88,699	—	—	109,712
Financial liabilities:						
Morguard Residential REIT Units	—	446,091	—	—	516,462	—
Conversion option on MRG convertible debentures	—	1,577	—	—	3,472	—

Risks Associated with Financial Assets and Financial Liabilities

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

(a) Market Risk

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

Interest Rate Risk

The Company is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be refinanced on terms as favourable as those of the existing indebtedness. Interest on the Company's bank indebtedness and certain mortgages is subject to floating interest rates. For the year ended December 31, 2020, the increase or decrease in annual net income for each one percent change in interest rates on floating-rate debt amounts to \$3,046.

The Company's objective in managing interest rate risk is to minimize the volatility of the Company's income. As at December 31, 2020, interest rate risk has been minimized because the majority of long-term debt is financed at fixed interest rates with maturities scheduled over a number of years. Mortgages payable totalling \$74,426 are subject to floating interest rates.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk as it relates to its U.S. investments due to fluctuations in the exchange rate between the Canadian and United States dollars. Changes in the exchange rate may result in a reduction or an increase of reported earnings and other comprehensive income. For the year ended December 31, 2020, a \$0.05 change in the United States to Canadian dollar exchange rate would have resulted in a \$1,762 change to net income or loss and a \$61,408 change to comprehensive income or loss.

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

(b) Credit Risk

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

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

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

As at December 31	2020	2019
Not later than one year	\$317,892	\$339,827
Later than one year and not longer than five years	806,345	864,117
Later than five years	420,523	503,671
	\$1,544,760	\$1,707,615

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

The Company utilizes the simplified approach to measure expected credit losses under IFRS 9, which requires the Company to recognize a lifetime expected credit loss allowance on all receivables at each reporting date. The carrying amount of amounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of income (loss) within property operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of income (loss).

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

As at December 31	2020	2019
Tenant receivables	\$59,350	\$30,126
Less: Allowance for doubtful accounts	(16,702)	(2,719)
Trade receivables, net	\$42,648	\$27,407

(c) Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company will be subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced. The Company's objectives in minimizing liquidity risk are to maintain appropriate levels of leverage on its real estate assets and to stagger the debt maturity profile. As at December 31, 2020, the Company was holding cash of \$142,088 and had undrawn lines of credit available to it of \$424,852.

NOTE 29

SEGMENTED INFORMATION

(a) Operating Segments

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

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

For the year ended December 31, 2020	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	\$393,401	\$241,062	\$242,527	\$11,334	\$98,046	\$986,370
Property/hotel operating expenses	(165,836)	(124,861)	(110,691)	(4,070)	(89,669)	(495,127)
Net operating income	\$227,565	\$116,201	\$131,836	\$7,264	\$8,377	\$491,243

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

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at December 31, 2020						
Real estate/hotel properties	\$4,965,659	\$2,291,329	\$2,285,085	\$138,335	\$545,041	\$10,225,449
Mortgages payable	\$2,093,904	\$895,502	\$1,096,121	\$19,867	\$163,980	\$4,269,374
For the year ended December 31, 2020						
Additions to real estate/hotel properties	\$39,010	\$33,605	\$17,441	\$11	\$7,142	\$97,209
Fair value gain (loss) on real estate properties	\$87,261	(\$477,299)	(\$133,437)	\$12,003	\$—	(\$511,472)
As at December 31, 2019						
Real estate/hotel properties	\$4,889,129	\$2,744,442	\$2,402,757	\$164,955	\$628,783	\$10,830,066
Mortgages payable	\$2,099,509	\$909,400	\$973,631	\$30,970	\$351,769	\$4,365,279
For the year ended December 31, 2019						
Additions to real estate/hotel properties	\$228,584	\$57,027	\$162,502	\$755	\$17,876	\$466,744
Fair value gain (loss) on real estate properties	\$75,140	(\$49,911)	(\$12,272)	\$14,100	\$—	\$27,057

(b) Regional Segments

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

As at December 31	2020	2019
Real estate and hotel properties		
Canada	\$7,337,757	\$7,740,218
United States	2,887,692	3,089,848
	\$10,225,449	\$10,830,066
For the years ended December 31		
	2020	2019
Revenue from real estate and hotel properties		
Canada	\$710,458	\$863,748
United States	275,912	253,757
	\$986,370	\$1,117,505

NOTE 30

COMPARATIVE AMOUNTS

Certain prior period comparative amounts have been reclassified to conform to the current period's presentation.

NOTE 31

SUBSEQUENT EVENT

Subsequent to December 31, 2020, the Company acquired 8,870 common shares under its NCIB for cash consideration of \$1,007 at a weighted average price of \$113.53 per common share.