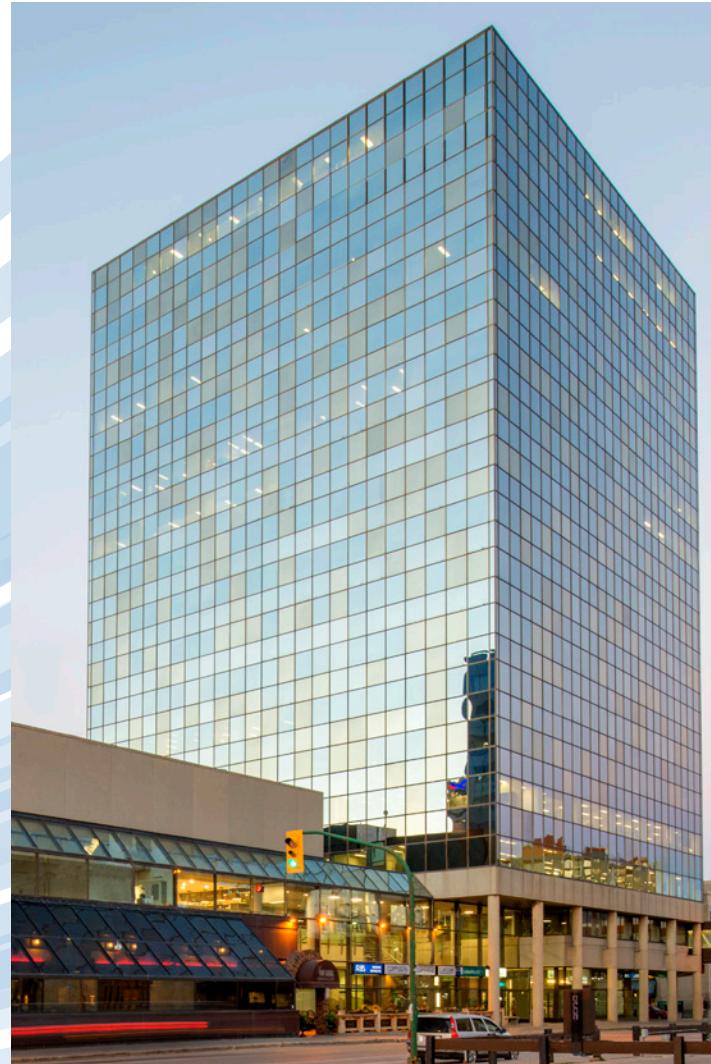


MORGUARD CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS AND  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# FIRST QUARTER 2019

TAKING ACTION.  
GETTING RESULTS.



**Morguard**

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

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## PART I

Morguard Corporation (“Morguard” or the “Company”) is pleased to provide this review of operations and update on our financial performance for the three months ended March 31, 2019. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per common share amounts.

The following Management's Discussion and Analysis (“MD&A”) sets out the Company’s strategies and provides an analysis of the financial performance for the three months ended March 31, 2019, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the Company’s unaudited condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2019 and 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards (“IFRS”) IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and is dated May 7, 2019. Disclosure contained in this document is current to that date unless otherwise noted.

Additional information relating to Morguard Corporation, including the Company’s Annual Information Form, can be found at [www.sedar.com](http://www.sedar.com) and [www.morguard.com](http://www.morguard.com).

### FORWARD-LOOKING STATEMENTS DISCLAIMER

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

### NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

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

### **COMPARATIVE NOI**

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

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

### **FUNDS FROM OPERATIONS ("FFO") AND NORMALIZED FFO**

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

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

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

## NON-CONSOLIDATED MEASURES

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

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

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

### NON-CONSOLIDATED INTEREST COVERAGE RATIO

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

### Non-Consolidated EBITDA

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

### Non-Consolidated Interest Expense

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

### NON-CONSOLIDATED INDEBTEDNESS TO AGGREGATE ASSETS RATIO

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

### Non-Consolidated Indebtedness

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

### Non-Consolidated Aggregate Assets

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

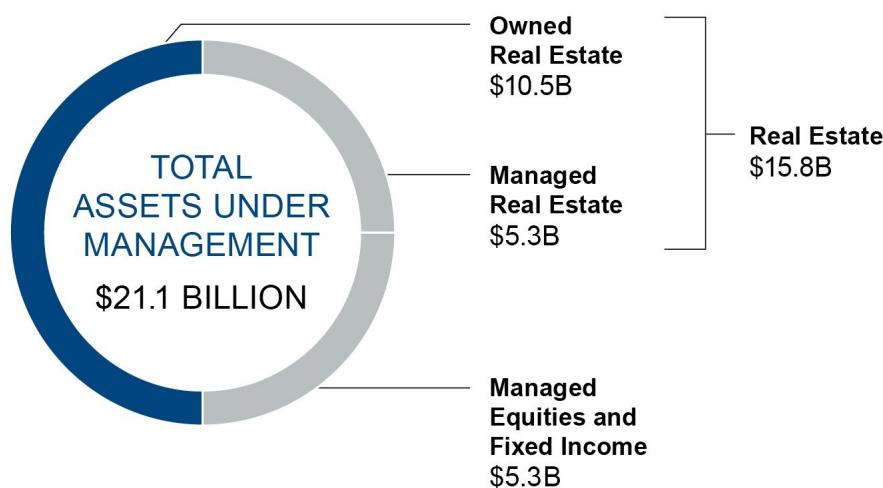
### NON-CONSOLIDATED ADJUSTED SHAREHOLDERS' EQUITY

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

## PART II

### BUSINESS OVERVIEW

Morguard Corporation is a real estate investment company whose principal activities include the acquisition, development and ownership of multi-suite residential, commercial and hotel properties. Morguard is also one of Canada's premier real estate investment advisors and management companies, representing major institutional and private investors. Morguard's total assets under management (including both owned and managed assets) were valued at \$21.1 billion as at March 31, 2019. The Company's common shares are publicly traded and listed on the Toronto Stock Exchange ("TSX") under the symbol "MRC." The Company's primary goal is to accumulate a portfolio of high-quality real estate assets and then deliver the benefits of such real estate ownership to shareholders.



### MANAGEMENT AND ADVISORY SERVICES

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

As of March 31, 2019, MIL together with Lincluden manage a portfolio (excluding Morguard's corporately owned assets and assets owned by Morguard REIT, Morguard Residential REIT and Temple) of assets having an estimated value of \$10.6 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;
- Increase the portfolio of third-party assets under management;
- Target and execute redevelopment and expansion projects that will generate substantial returns;
- Pursue opportunities to acquire or develop strategically located properties;
- Minimize operating costs by utilizing internalized functions, including property and asset management, leasing, finance, accounting, legal and information technology services; and
- Dispose of properties where the cash flows and values have been maximized.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at	March 31, 2019	December 31, 2018	March 31, 2018
Real estate properties	<b>\$9,746,826</b>	\$9,645,596	\$8,918,002
Hotel properties	<b>660,817</b>	666,078	676,561
Equity-accounted and other fund investments	<b>285,024</b>	281,464	289,328
Total assets	<b>11,244,717</b>	11,082,758	10,424,974
Indebtedness <sup>(1)</sup>	<b>\$5,588,326</b>	\$5,498,668	\$5,169,281
Indebtedness to total assets (%)	<b>49.7</b>	49.6	49.6
Total equity	<b>\$4,236,266</b>	\$4,228,798	\$4,001,404
Shareholders' equity per common share	<b>304.99</b>	303.84	277.24
Exchange rates - Canadian dollar to U.S. dollar	<b>\$0.75</b>	\$0.73	\$0.78
Exchange rates - U.S. dollar to Canadian dollar	<b>\$1.34</b>	\$1.36	\$1.29

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

For the three months ended March 31	2019	2018
Revenue from real estate properties	<b>\$219,840</b>	\$203,839
Revenue from hotel properties	<b>53,627</b>	53,852
Management and advisory fees	<b>11,651</b>	14,437
Total revenue	<b>290,645</b>	274,818
Net operating income	<b>104,574</b>	99,745
Fair value gain (loss), net	<b>20,956</b>	96,007
Net income attributable to common shareholders	<b>33,486</b>	116,608
Per common share - basic and diluted	<b>2.97</b>	10.10
Funds from operations	<b>53,566</b>	49,911
Per common share - basic and diluted	<b>4.74</b>	4.32
Normalized FFO	<b>51,020</b>	49,506
Per common share - basic and diluted	<b>4.52</b>	4.29
Distributions received from Morguard REIT	<b>8,390</b>	8,160
Distributions received from Morguard Residential REIT	<b>4,057</b>	3,943
Dividends declared/paid	<b>(1,693)</b>	(1,722)
Average exchange rates - Canadian dollar to U.S. dollar	<b>\$0.75</b>	\$0.79
Average exchange rates - U.S. dollar to Canadian dollar	<b>\$1.33</b>	\$1.26

Total assets as at March 31, 2019, were \$11,244,717, compared to \$11,082,758 as at December 31, 2018. Total assets increased by \$161,959 primarily due to the following:

- An increase in real estate properties of \$101,230 mainly due to adoption of IFRS 16 which included the initial recognition of right-of-use assets on the Company's land leases of \$153,610, capital and development expenditures of \$16,654, tenant incentives and leasing commissions of \$3,068, a fair value gain of \$48,089, partially offset by the disposition of real estate properties of \$59,381 and a change in foreign exchange rate amounting to \$60,248;
- An increase in other assets and prepaid expense of \$29,118; and
- An increase in cash of \$28,556.

Total revenue during the three months ended March 31, 2019, increased by \$15,827 to \$290,645, compared to \$274,818 in 2018. The increase was primarily due to the following:

- An increase in revenue from real estate properties in the amount of \$16,001;
- An increase in interest and other income of \$2,596, partially offset by;
- A decrease in management and advisory fees of \$2,786.

## PROPERTY PROFILE

As at March 31, 2019, the Company and its subsidiaries own a diversified portfolio of 210 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 March 31, 2019 was as follows:

Asset Type	Number of Properties	GLA Square Feet (000s) <sup>(1)</sup>	Apartment Suites/Hotels Rooms <sup>(2)</sup>	Real Estate Properties
Multi-suite residential	56	—	17,686	\$4,591,689
Retail	40	8,724	—	2,603,320
Office	48	7,132	—	2,301,168
Industrial	27	1,434	—	162,920
Hotel	39	—	5,903	674,712
Properties and land held for and under development	—	—	—	124,710
<b>Total<sup>(3)</sup></b>	<b>210</b>	<b>17,290</b>	<b>23,589</b>	<b>\$10,458,519</b>

(1) Total GLA is shown on a proportionate basis; on a 100% basis, total GLA of the Company's commercial properties is 21.6 million square feet.

(2) Total suites/hotel rooms include equity-accounted investments and non-controlling interest. The Company on a proportionate basis has ownership of 16,685 suites and 5,666 hotel rooms.

(3) Includes two 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 (21 low-rise and seven mid-rise garden-style communities located in Colorado, Texas, Louisiana, Georgia, Florida, North Carolina, Virginia and Maryland and four high-rise buildings located in Chicago, Illinois and Los Angeles, California). The combined multi-suite residential portfolio represents 17,686 suites.

The Company's retail portfolio includes two broad categories of income producing properties: (i) enclosed full-scale, regional shopping centres that are dominant in their respective markets; and (ii) neighbourhood and community shopping centres that are primarily anchored by food retailers, discount department stores and banking institutions. The retail portfolio comprises 29 properties located in Canada and 11 properties located in Florida and Louisiana. The combined retail portfolio represents 8.7 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 7.1 million square feet of GLA.

The Company's industrial portfolio comprises 27 industrial properties located throughout Ontario, Québec and British Columbia. The Industrial portfolio represents 1.4 million square feet of GLA.

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

#### AVERAGE OCCUPANCY LEVELS

#### COMPARATIVE AVERAGE OCCUPANCY LEVELS

	Suites/GLA Square Feet	Mar. 2019	Dec. 2018	Sep. 2018	June 2018	Mar. 2018
Multi-suite residential	17,387 <sup>(1)</sup>	<b>96.7%</b>	96.1%	94.7%	94.2%	94.2%
Retail	8,173,000 <sup>(2)</sup>	<b>89.3%</b>	89.8%	88.9%	89.7%	90.4%
Office	7,132,000	<b>92.5%</b>	93.3%	92.8%	92.0%	92.2%
Industrial	1,434,000	<b>88.7%</b>	90.6%	92.8%	93.3%	94.7%

(1) Excludes two properties, one property located in Los Angeles, California and one property under development in New Orleans, Louisiana.

(2) Retail occupancy has been adjusted to exclude development space (551,057 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases.

The retail occupancy levels were adjusted to exclude development space (551,057 square feet of GLA) affected primarily by either disclaimed or acquired Target and Sears leases. As at March 31, 2019, this adjustment increased retail occupancy from 84.3% to 89.3%.

## PART III

### REVIEW OF OPERATIONAL RESULTS

The Company's operational results for the three months ended March 31, 2019 and 2018 are summarized below:

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Revenue from real estate properties	\$219,840	\$203,839
Revenue from hotel properties	53,627	53,852
Property operating expenses		
Property operating costs	(45,844)	(44,199)
Utilities	(15,763)	(15,173)
Realty taxes	(62,772)	(55,804)
Hotel operating expenses	(44,514)	(42,770)
<b>Net operating income</b>	<b>104,574</b>	<b>99,745</b>
<b>OTHER REVENUE</b>		
Management and advisory fees	11,651	14,437
Interest and other income	4,036	1,440
Sales of product and land	1,491	1,250
<b>17,178</b>	<b>17,127</b>	
<b>EXPENSES</b>		
Interest	59,047	50,051
Property management and corporate	27,532	22,428
Cost of sales of product and land	1,128	852
Amortization of hotel properties	6,772	6,512
Amortization of capital assets and other	2,017	1,624
<b>96,496</b>	<b>81,467</b>	
<b>OTHER INCOME (EXPENSE)</b>		
Fair value gain (loss), net	20,956	96,007
Equity income from investments	1,446	589
Other income (expense)	185	2,199
<b>22,587</b>	<b>98,795</b>	
<b>Income before income taxes</b>	<b>47,843</b>	<b>134,200</b>
Provision for income taxes		
Current	1,138	1,682
Deferred	7,746	7,493
	8,884	9,175
<b>Net income for the period</b>	<b>\$38,959</b>	<b>\$125,025</b>
<b>Net income attributable to:</b>		
Common shareholders	\$33,486	\$116,608
Non-controlling interest	5,473	8,417
	\$38,959	\$125,025
<b>Net income per common share attributable to:</b>		
Common shareholders - basic and diluted	\$2.97	\$10.10

## NET INCOME

Net income for the three months ended March 31, 2019, was \$38,959, compared to net income of \$125,025 in 2018. The decrease in net income of \$86,066 for the three months ended March 31, 2019, was primarily due to the following:

- An increase in net operating income of \$4,829, primarily due to the three office acquisitions completed during and subsequent to March 31, 2018 and the impact of the adoption of IFRS 16, resulting in land rent expense being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease in management and advisory fees of \$2,786, primarily due to lower disposition fees earned as well as a decrease in asset management fees compared to 2018;
- An increase in interest and other income of \$2,596;
- An increase in interest expense of \$8,996, mainly due to interest on lease liabilities (noted above), higher interest on Unsecured Debentures and higher interest on mortgages payable;
- An increase in property management and corporate expense of \$5,104, primarily due to an increase in non-cash compensation expense related to the Company's stock appreciation rights (SAR's) plan; and
- A decrease in non-cash net fair value gain of \$75,051, primarily due to a higher fair value loss on Morguard Residential REIT Units and a lower fair value gain on real estate properties.

## NET OPERATING INCOME

Net operating income increased by \$4,829 or 4.8%, during the three months ended March 31, 2019, to \$104,574, compared to \$99,745 generated in 2018, and is further analyzed by asset type below.

## ADJUSTED NOI BY ASSET TYPE

For the three months ended March 31	2019	2018
Multi-suite residential	\$51,076	\$47,395
Retail	36,811	31,636
Office	33,727	30,889
Industrial	2,148	2,266
Hotel	9,113	11,082
<b>Adjusted NOI</b>	<b>132,875</b>	123,268
IFRIC 21 adjustment - multi-suite residential	(24,158)	(19,673)
IFRIC 21 adjustment - retail	(4,143)	(3,850)
<b>NOI</b>	<b>\$104,574</b>	\$99,745

NOI from the multi-suite residential portfolio for the three months ended March 31, 2019, decreased by \$804 or 2.9% to \$26,918, compared to \$27,722 in 2018. The decrease in NOI is due to the change in Adjusted NOI described below and by the increase in the IFRIC 21 adjustment of \$4,485.

Adjusted NOI from the multi-suite residential portfolio for the three months ended March 31, 2019, increased by \$3,681 or 7.8% to \$51,076, compared to \$47,395 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian multi-suite residential properties of \$1,455 primarily resulting from:
  - An increase of \$951 mainly from rental rate growth, improved occupancy and lower operating expenses at properties located in Canada. The average rental rate increased by 4.2% when compared to the same period in 2018. During the three months ended March 31, 2019, the Company's Canadian portfolio turned over 223 suites, or 2.8% of total suites and achieved AMR growth of 14.5% on suite turnover; and
  - An increase of \$504 due to the adoption of IFRS 16;
- An increase in U.S. multi-suite residential properties of US\$692 primarily resulting from:
  - An increase of US\$717 mainly from rental rate growth and improved occupancy at properties located in the U.S. The average rental rate increased by 3.0% when compared to the same period in 2018;

- An increase of US\$303 predominantly due to the acquisition of Santorini Apartments and Vizcaya Lakes subsequent to the first quarter of 2018; and
- A decrease of US\$328 due to the sale of four properties, located in Louisiana, during the first quarter of 2019; and
- An increase of \$1,534 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the three months ended March 31, 2019, increased by \$4,882 or 17.6%, to \$32,668, compared to \$27,786 in 2018. The decrease in NOI is due to the change in Adjusted NOI described below offset by an increase in the IFRIC 21 adjustment of \$293.

Adjusted NOI from the retail portfolio for the three months ended March 31, 2019, increased by \$5,175, or 16.4%, to \$36,811, compared to \$31,636 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian retail properties of \$4,135 primarily resulting from:
  - An increase of \$2,315 due to adoption of IFRS 16;
  - An increase of \$756 from increased occupancy, higher base rent and lower non-recoverable operating expenses at the Canadian properties;
  - An increase of \$1,064 due to non-recurring income from a prior year realty tax refund and a settlement of disputed charges; and
- An increase in U.S. retail properties of US\$563 primarily resulting from:
  - An increase of US\$313 due to additional rental revenue from new tenants and lower operating expenses at U.S. properties, partially offset by a loss of tenants at two retail shopping centres in Louisiana;
  - An increase of US\$250 in lease cancellation fees received; and
- An increase of \$477 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the three months ended March 31, 2019, increased by \$2,838 or 9.2%, to \$33,727, compared to \$30,889 in 2018 due primarily to the following:

- An increase of \$2,456 due to the acquisition of 5985 Explorer Drive, 41 Rue Victoria and Jean Edmonds Towers completed during, and subsequent to, the first quarter of 2018;
- An increase of \$306 due to lease cancellation fees received from a tenant at a property located in Saint-Laurent, Québec; and
- An increase of \$179 due to adoption of IFRS 16.

NOI from the industrial portfolio for the three months ended March 31, 2019, decreased by \$118, or 5.2%, to \$2,148, compared to \$2,266 in 2018 due to the following:

- A decrease of \$207 due to increased vacancy and higher non-recoverable operating costs; and
- An increase of \$89 is due to the acquisition of 1100 and 1101 Polytek Street, during first quarter of 2018.

NOI from the hotel portfolio for the three months ended March 31, 2019, decreased by \$1,969 or 17.8%, to \$9,113, compared to \$11,082 in 2018 due primarily to the following:

- A decrease of \$1,442 mainly due to higher vacancy primarily at hotels located in Alberta, including the expiry of a long term lease at the Cortona Residence;
- A decrease of \$561 due to lower food and beverage sales and higher operating costs at a hotel located in Red Deer, Alberta;
- An increase in net operating loss of \$112 at the newly re-developed dual branded Hilton Garden Inn and Homewood Suites by Hilton located in Ottawa, Ontario which commenced its operations on January 1, 2019; and
- An increase of \$43 due to adoption of IFRS 16.

## COMPARATIVE NET OPERATING INCOME

For the three months ended March 31	2019	2018
Multi-suite residential (in local currency)	\$43,328	\$41,385
Retail (in local currency)	33,282	32,244
Office	30,356	30,296
Industrial	1,652	1,776
Hotel	9,442	11,342
Exchange amount to Canadian dollars	8,622	6,589
<b>Comparative NOI</b>	<b>126,682</b>	<b>123,632</b>
Acquired properties	3,432	813
Dispositions	653	1,080
Realty tax expense accounted for under IFRIC 21	(28,301)	(23,523)
U.S. retail - lease cancellation fees	334	—
Canadian retail - lease cancellation fees	482	531
Canadian office - lease cancellation fees	306	—
Canadian hotel development	—	(216)
Adoption of IFRS 16	—	(3,041)
Other	986	469
<b>NOI</b>	<b>\$104,574</b>	<b>\$99,745</b>

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

Comparative NOI for the three months ended March 31, 2019, increased by \$3,050, to \$126,682 compared to \$123,632 in 2018 due to the following:

- Multi-suite residential increase of \$1,943 as a result of an increase in Canadian and U.S. rental rate growth and improved operating efficiencies;
- Retail increased by \$1,038 due to increased occupancy, higher base rent, additional rental income from new tenants and lower non-recoverable operating expenses at Canadian and U.S. properties;
- Office increased by \$60 mainly due to higher base rent and improved occupancy;
- Industrial decreased by \$124 due to higher vacancy and non-recoverable operating expenses;
- Hotel decreased by \$1,900 mainly as a result of higher vacancy primarily at hotels located in Alberta, including the expiry of a long-term lease at the Cortona Residence as well as lower food and beverage sales and higher operating costs at a hotel located in Red Deer, Alberta; and
- The change in the foreign exchange rate increased Comparative NOI for the U.S. properties by \$2,033.

## MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard's management and advisory fee revenue for the three months ended March 31, 2019, decreased by \$2,786, or 19.3%, to \$11,651, compared to \$14,437 in 2018, primarily due to lower disposition fees earned as well as a decrease in asset management fees compared to 2018.

The Company also generated a net profit from the sale of product and land of \$363 during the three months ended March 31, 2019 (2018 - \$398).

## INTEREST AND OTHER INCOME

Interest and other income for the three months ended March 31, 2019, increased by \$2,596, or 180.3%, to \$4,036, compared to \$1,440 in 2018. The increase was primarily due to finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable as well as higher dividend income earned on investments.

## INTEREST EXPENSE

Interest expense consists of the following:

For the three months ended March 31	2019	2018
Mortgages payable	\$41,433	\$38,952
Unsecured Debentures	8,020	5,480
Convertible debentures, net of accretion	4,699	4,524
Bank indebtedness	955	1,385
Construction loans	—	393
Loans payable and other	884	247
Lease liabilities	2,422	95
Amortization of mark-to-market adjustments on mortgages, net	(1,476)	(2,150)
Amortization of deferred financing costs	1,818	1,680
Loss on extinguishment of mortgage payable	491	—
	59,246	50,606
Less: Interest capitalized to properties under development	(199)	(555)
	\$59,047	\$50,051

Interest expense for the three months ended March 31, 2019, increased by \$8,996, or 18.0%, to \$59,047, compared to \$50,051 in 2018, mainly due to higher interest on mortgages payable mainly from the financing of acquisitions completed during and subsequent to March 31, 2018, higher interest on lease liabilities due to adoption of IFRS 16, a loss on extinguishment of mortgages payable on the disposal of properties, lower amortization of mark-to-market adjustment and higher interest on Unsecured Debentures resulting from the issuance of the Series D and Series E unsecured debentures in May 2018 and January 2019, respectively, which was partly offset by lower interest from the repayment of the Series A debentures in December 2018.

## PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the three months ended March 31, 2019, increased by \$5,104, or 22.8%, to \$27,532, compared to \$22,428 in 2018, primarily due to an increase in non-cash compensation expense related to the Company's SARs plan of \$4,794.

## AMORTIZATION OF HOTEL PROPERTIES, CAPITAL ASSETS AND OTHER

Amortization of hotel properties, capital assets and other for the three months ended March 31, 2019, increased by \$653 to \$8,789, compared to \$8,136 in 2018.

## FAIR VALUE GAIN (LOSS) ON REAL ESTATE PROPERTIES

Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including changes in projected cash flows as a result of leasing, capitalization rates, discount rates and terminal capitalization rates. During the three months ended March 31, 2019, the Company recognized a net fair value gain on real estate properties of \$48,487, compared to a net fair value gain of \$65,289 in 2018.

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

For the three months ended March 31	2019	2018
Multi-suite residential	\$45,446	\$81,275
Retail	11,785	131
Office	(9,678)	(15,653)
Industrial	567	(464)
Land held for development	367	—
	\$48,487	\$65,289

For the three months ended March 31, 2019, the Company recognized a net fair value gain of \$45,446 in the residential portfolio. The fair value gain consists of \$27,055 at the Canadian properties primarily as a result of an

increase in stabilized NOI and \$18,391 fair value gain at the U.S. properties which was predominantly due to a \$24,158 adjustment on realty taxes accounted for under IFRIC 21, partially offset by a decrease in stabilized NOI at certain properties located in Florida, Georgia, Texas and Louisiana.

For the three months ended March 31, 2019, the Company recognized a net fair value gain of \$11,785 in the retail portfolio. The fair value gain consists of \$6,204 at the Canadian properties primarily as a result of an increase in value at a mixed use property located in Coquitlam, British Columbia due to appreciation of underlying land value and future development potential, partially offset by decreases in value at other properties due to lower stabilized NOI. In addition, a fair value gain of \$5,581 at the U.S. properties which was predominantly due to a \$4,143 adjustment on realty taxes accounted for under IFRIC 21.

### **FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS**

For the three months ended March 31, 2019, the Company recorded a fair value loss on the Morguard Residential REIT Units of \$33,801, which includes a mark-to-market loss of \$29,207 on the Units and the distributions made to external Unitholders of \$4,594.

### **EQUITY INCOME FROM INVESTMENTS**

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

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Joint ventures	\$590	\$1,337
Associates	856	(748)
	<b>\$1,446</b>	<b>\$589</b>

Equity income from investments for the three months ended March 31, 2019, increased by \$857 to income of \$1,446, compared to \$589 in 2018. The increase in equity income is due to fair value gain recorded during the period ended March 31, 2019 compared to fair value loss recorded in the same period in 2018, partially offset by a decrease in operating income during 2019 compared to the same period in 2018.

### **OTHER INCOME**

Other income for the three months ended March 31, 2019, decreased by \$2,014 to \$185, compared to \$2,199 in 2018, primarily due to an increase in foreign exchange loss of \$4,047, partially offset by a gain of \$508 on the sale of a hotel property and an increase in other income of \$1,525, primarily from insurance proceeds.

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

### **INCOME TAXES**

For the three months ended March 31, 2019, the Company recorded total income tax expense of \$8,884, compared to \$9,175 in 2018. The increase of \$291 comprises a decrease of \$544 in current tax and an increase of \$253 in deferred tax.

### **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 three months ended March 31, 2019, an actuarial gain of \$10,676 was recorded in the consolidated statements of comprehensive income (loss), compared to an actuarial gain of \$3,873 for the three months ended March 31, 2018.

## FUNDS FROM OPERATIONS

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

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Multi-suite residential	\$51,076	\$47,392
Retail	36,811	31,636
Office	33,727	30,889
Industrial	2,148	2,266
Hotel	9,113	11,085
<b>Adjusted NOI</b>	<b>132,875</b>	123,268
<b>Other Revenue</b>		
Management and advisory fees	11,651	14,437
Interest and other income	4,036	1,440
Sale of product and land, net of costs	363	398
Equity-accounted FFO <sup>(1)</sup>	528	1,978
	<b>16,578</b>	18,253
<b>Expenses and Other</b>		
Interest	(59,047)	(50,051)
Property management and corporate	(27,532)	(22,428)
Internal leasing costs	610	459
Amortization of capital assets	(1,507)	(1,168)
Current income taxes	(1,138)	(1,682)
Non-controlling interests' share of FFO	(10,863)	(12,488)
Non-controlling interest - Morguard Residential REIT	(5,389)	(5,362)
Unrealized changes in the fair value of financial instruments	7,622	1,278
Other income (expense)	1,357	(168)
<b>FFO</b>	<b>\$53,566</b>	\$49,911
<b>FFO per common share amounts – basic and diluted</b>	<b>\$4.74</b>	\$4.32
Weighted average number of common shares outstanding (in thousands):		
Basic and diluted	11,290	11,543

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

For the three months ended March 31, 2019, the Company recorded FFO of \$53,566 (\$4.74 per common share), compared to \$49,911 (\$4.32 per common share) in 2018. The increase in FFO of \$3,655 is mainly due to the following:

- An increase in Adjusted NOI of \$9,607, primarily due to the acquisition of properties and the impact of the adoption of IFRS 16, resulting in land rent expense being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease in management and advisory fees of \$2,786, primarily due to lower disposition fees earned as well as a decrease in asset management fees;
- An increase in interest and other income of \$2,596, due to finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable as well as higher dividend income earned on investments;
- An increase in interest expense of \$8,996, mainly due to interest on lease liabilities (noted above), higher interest on Unsecured Debentures and higher interest on mortgages payable;
- An increase in property management and corporate expense of \$5,104, primarily due to an increase in non-cash compensation expense related the Company's SAR's plan;
- A decrease in the non-controlling interests' share of FFO of \$1,625;
- An increase in other income of \$1,525, primarily from insurance proceeds; and
- An increase in unrealized gain in the fair value of financial instrument of \$6,344.

The change in foreign exchange rate had a positive impact on FFO of \$627 (\$0.05 per common share).

## Normalized FFO

For the three months ended March 31	2019	2018
FFO (from above)	\$53,566	\$49,911
Add/(deduct):		
Insurance proceeds	(1,733)	—
Lease cancellation fee	(853)	(502)
	50,980	49,409
Tax effect	40	97
<b>Normalized FFO</b>	<b>\$51,020</b>	<b>\$49,506</b>
Per common share amounts – basic and diluted	\$4.52	\$4.29

Normalized FFO for the three months ended March 31, 2019, was \$51,020, or \$4.52 per common share, versus \$49,506, or \$4.29 per common share, for the same period in 2018, which represents an increase of \$1,514, or 3.1%.

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

For the three months ended March 31	2019	2018
<b>Net income attributable to common shareholders</b>	<b>\$33,486</b>	<b>\$116,608</b>
Add/(deduct):		
Fair value gain on real estate properties, net <sup>(1)</sup>	(49,621)	(64,097)
Non-controlling interests' share of fair value loss on real estate properties, net	(1,572)	(446)
Fair value loss (gain) on Morguard Residential REIT Units	29,207	(33,328)
Distribution to Morguard Residential REIT's external Unitholders	4,594	4,459
Non-controlling interest - Morguard Residential REIT	(5,389)	(5,362)
Fair value loss (gain) on conversion option of MRG convertible debentures	1,352	(571)
Amortization of intangible asset	510	430
Amortization of hotel properties <sup>(2)</sup>	6,988	6,735
Non-controlling interests' share of amortization of hotel properties	(1,943)	(2,058)
Foreign exchange loss (gain)	1,680	(2,367)
Deferred income taxes	7,746	7,493
Non-controlling interests' share of deferred income taxes	(158)	(50)
Internal leasing costs	610	459
Realty taxes accounted for under IFRIC 21 <sup>(3)</sup>	26,584	22,006
Gain on sale of hotel property	(508)	—
<b>FFO</b>	<b>\$53,566</b>	<b>\$49,911</b>
<b>FFO per common share – basic and diluted</b>	<b>\$4.74</b>	<b>\$4.32</b>
Weighted average number of common shares outstanding (in thousands):		
Basic and diluted	11,290	11,543

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

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

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

## PART IV

### BALANCE SHEET ANALYSIS

#### REAL ESTATE PROPERTIES

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

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

As at	March 31, 2019	December 31, 2018
Real estate properties		
Multi-suite residential	\$4,510,196	\$4,543,672
Retail	2,731,557	2,589,422
Office	2,217,443	2,215,973
Industrial	162,920	162,235
	<b>9,622,116</b>	9,511,302
Properties under development	47,092	56,717
Land held for development	77,618	77,577
<b>Real estate properties</b>	<b>\$9,746,826</b>	\$9,645,596

Real estate properties increased by \$101,230 at March 31, 2019, to \$9,746,826, compared to \$9,645,596 at December 31, 2018. The increase is primarily the result of the following:

- Capitalization of property enhancements, including capital expenditures and tenant improvements totalling \$12,450;
- Development expenditures of \$7,272;
- Disposition of four U.S. multi-suite residential properties located in Louisiana amounting to \$59,381;
- An increase from the initial recognition of right-of-use assets on the Company's land leases on the adoption of IFRS 16 of \$153,610;
- A fair value gain on real estate properties of \$48,089; and
- A decrease of \$60,248 due to the change in the U.S. dollar foreign exchange rate.

#### Dispositions Completed During the Three Months Ended March 31, 2019

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

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

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

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

## APPRAISAL CAPITALIZATION AND DISCOUNT RATES

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

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

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

As at	March 31, 2019						December 31, 2018					
	Occupancy Rates		Capitalization Rates			Weighted Average	Occupancy Rates		Capitalization Rates			
	Max.	Min.	Max.	Min.	Max.		Max.	Min.	Max.	Min.	Weighted Average	
Multi-suite residential	98.0%	92.0%	7.3%	3.5%	4.5%	4.5%	98.0%	90.0%	7.8%	3.5%	4.5%	
Retail	100.0%	80.0%	12.0%	5.3%	6.4%	6.4%	100.0%	80.0%	12.0%	5.3%	6.4%	
Office	100.0%	90.0%	7.8%	4.3%	6.0%	6.0%	100.0%	90.0%	7.5%	4.3%	6.0%	
Industrial	100.0%	95.0%	7.0%	5.0%	5.7%	5.7%	100.0%	95.0%	7.5%	5.0%	5.8%	

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

As at	March 31, 2019				December 31, 2018			
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average	Maximum	Minimum
<b>Retail</b>								
Discount rate	10.3%	6.0%	6.9%	10.3%	6.0%	6.9%		
Terminal cap rate	9.5%	5.3%	5.9%	9.5%	5.3%	5.9%		
<b>Office</b>								
Discount rate	8.0%	5.3%	6.5%	8.0%	5.1%	6.4%		
Terminal cap rate	7.3%	4.3%	5.8%	7.3%	4.3%	5.7%		
<b>Industrial</b>								
Discount rate	7.5%	6.0%	6.6%	7.3%	6.0%	6.5%		
Terminal cap rate	7.0%	5.0%	5.8%	6.8%	5.0%	5.8%		

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

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

<u>As at</u>	<u>March 31, 2019</u>		<u>December 31, 2018</u>	
<b>Change in capitalization rate:</b>	<b>0.25%</b>	<b>(0.25%)</b>	<b>0.25%</b>	<b>(0.25%)</b>
Multi-suite residential	(\$232,418)	\$259,629	(\$241,337)	\$270,194
Retail	(93,602)	101,245	(94,615)	102,416
Office	(84,297)	91,579	(84,780)	92,160
Industrial	(6,494)	7,095	(6,266)	6,826
	<b>(\$416,811)</b>	<b>\$459,548</b>	<b>(\$426,998)</b>	<b>\$471,596</b>

## HOTEL PROPERTIES

Hotel properties consist of the following:

<u>As at</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Cost	\$788,819	\$788,412
Accumulated impairment provision	(54,258)	(54,258)
Accumulated amortization	(73,744)	(68,076)
Hotel properties	<b>\$660,817</b>	<b>\$666,078</b>

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

## EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

<u>As at</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Joint ventures	\$52,534	\$52,803
Associates	125,601	124,677
Equity-accounted investments	178,135	177,480
Other real estate fund investments	106,889	103,984
Equity-accounted and other fund investments	<b>\$285,024</b>	<b>\$281,464</b>

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

<u>Property/Investment</u>	<u>Principal Place of Business</u>	<u>Investment Type</u>	<u>Asset Type</u>	<u>Company's Ownership</u>		<u>Carrying Value</u>	
				<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	50.0%	50.0%	\$24,414	\$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	50.0%	50.0%	6,981	7,031
Greypoint Capital L.P.	Toronto, ON	Joint Venture	Other	36.4%	36.4%	5,662	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	50.0%	50.0%	10,801	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	50.0%	50.0%	4,676	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	59.1%	59.1%	55,521	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	49.0%	49.0%	51,617	53,476
MIL Industrial Fund II LP <sup>(1)</sup>	Various	Associate	Industrial	18.8%	18.8%	18,463	18,555
						<b>\$178,135</b>	<b>\$177,480</b>

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

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

As at	March 31, 2019	December 31, 2018
Balance, beginning of period	\$177,480	\$187,365
Additions	2,240	7,786
Share of net income (loss)	1,446	(22,654)
Distributions received	(859)	(4,472)
Foreign exchange gain (loss)	(2,172)	9,455
Balance, end of period	<b>\$178,135</b>	<b>\$177,480</b>

#### MORTGAGES PAYABLE

Mortgages payable totalled \$4,257,412 at March 31, 2019, compared to \$4,362,701 at December 31, 2018, a decrease of \$105,289. The decrease was predominantly due to the repayment of mortgages discharged and matured of \$61,516, scheduled principal repayments of \$27,618 and a decrease of \$27,323 from the change in the foreign exchange rate, partially offset by net proceeds from new financing of \$11,016.

#### MORTGAGE CONTINUITY SCHEDULE

As at	March 31, 2019	December 31, 2018
Opening mortgage balance	<b>\$4,362,701</b>	\$4,056,028
New mortgage financing	11,253	477,769
New mortgage financing costs	(237)	(2,797)
Mortgages discharged and matured	(61,516)	(196,704)
Scheduled principal repayments	(27,618)	(109,578)
Mortgages assumed on acquisition	—	32,264
Change in foreign exchange rate	(27,323)	108,745
Mortgages mark-to-market adjustment, net	(1,476)	(7,480)
Deferred financing costs (including extinguishment)	1,628	4,454
<b>Closing mortgage balance</b>	<b>\$4,257,412</b>	<b>\$4,362,701</b>

#### MORTGAGE REPAYMENT SCHEDULE

As at March 31, 2019	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of the year)	\$76,500	\$643,167	\$719,667	4.45%
2020	99,624	164,293	263,917	4.76%
2021	94,567	393,033	487,600	4.38%
2022	88,024	384,446	472,470	3.65%
2023	66,829	539,442	606,271	3.60%
Thereafter	216,826	1,497,622	1,714,448	3.64%
	<b>\$642,370</b>	<b>\$3,622,003</b>	<b>4,264,373</b>	<b>3.88%</b>
Mark-to-market adjustment, net			15,976	
Deferred financing costs			(22,937)	
			<b>\$4,257,412</b>	

The Company's first mortgages are registered against specific real estate assets and hotel properties. As at March 31, 2019, mortgages payable bear interest at rates ranging between 2.25% and 8.95% per annum with a weighted average interest rate of 3.88% (December 31, 2018 - 3.87%) and mature between 2019 and 2058 with a weighted average term to maturity of 5.0 years (December 31, 2018 - 5.2 years). Approximately 93.6% of the Company's mortgages have fixed interest rates.

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at March 31, 2019, Temple was not in compliance with seven (December 31, 2018 - seven) debt service covenants affecting seven (December 31, 2018 - seven) mortgage loans amounting to \$103,797 (December 31, 2018 - \$104,525). Subsequent to March 31, 2019, the Company received a waiver in regard to one mortgage loan with an aggregate amount of \$14,497. None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes \$33,883 scheduled to retire after March 31, 2020.

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

### **MORTGAGE MATURITY SCHEDULE**

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

Asset Type	Number of Properties	Principal Maturing	2019		2020	
			Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Multi-suite residential	3	\$102,469	3.22%	1	\$8,828	4.25%
Retail	4	206,715	3.63%	1	28,439	4.07%
Office	2	49,581	3.09%	5	119,030	4.96%
Hotels <sup>(1)</sup>	16	249,023	5.79%	1	7,996	4.71%
	25	\$607,788	4.41%	8	\$164,293	4.76%

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

The following table details the new and refinancing activities completed during the three months ended March 31, 2019.

Date	Asset Type	Location	Interest Rate	Term (years)	Mortgage Amount
January 4, 2019	Office	Edmonton, AB	3.90%	3.0	\$11,253
January 14, 2019	Hotel	Fort McMurray, AB	6.00%	1.0	6,850
January 14, 2019	Hotel	Lloydminster, AB	6.00%	1.0	7,965
January 14, 2019	Hotel	Red Deer, AB	6.00%	1.0	27,984
<b>Weighted Averages and Total</b>			<b>5.41%</b>	<b>1.7</b>	<b>\$54,052</b>

The following table details the mortgages repaid at maturity and extinguished early during the three months ended March 31, 2019.

Date	Asset Type	Location	Maturing Interest	Mortgage Amount
March 27, 2019	Residential	Gretna, LA	3.39%	\$11,331
January 4, 2019	Office	Edmonton, AB	3.61%	16,253
January 14, 2019	Hotel	Fort McMurray, AB	4.40%	6,850
January 14, 2019	Hotel	Lloydminster, AB	4.80%	7,965
January 14, 2019	Hotel	Red Deer, AB	4.65%	27,984
March 11, 2019	Hotel	Calgary, AB	4.72%	7,000
<b>Weighted Averages and Total</b>			<b>3.08%</b>	<b>\$77,383</b>

## UNSECURED DEBENTURES

The Company's Unsecured Debentures consist of the following:

As at	Maturity Date	Coupon Interest Rate	March 31, 2019	December 31, 2018
Series B senior unsecured debentures	November 18, 2020	4.013%	<b>\$200,000</b>	\$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	<b>200,000</b>	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	<b>200,000</b>	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	<b>225,000</b>	—
Unamortized financing costs			<b>(3,455)</b>	(2,303)
			<b>\$821,545</b>	\$597,697

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

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

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

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

For the three months ended March 31, 2019, interest on the Unsecured Debentures of \$8,020 (2018 - \$5,480) 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: mortgages and loans receivable; amounts receivable; prepaid expenses and other; and cash.

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

Non-Consolidated Basis adjustments include the following:

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

<b>Non-Consolidated Basis</b>	<b>Covenant Requirements</b>	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Interest coverage ratio <sup>(1)</sup>	1.65	2.88	3.51
Indebtedness to aggregate assets ratio <sup>(2)</sup>	Less than or equal to 65%	41.3%	38.2%
Adjusted shareholders' equity <sup>(3)</sup>	Not less than \$300,000	\$3,615,935	\$3,337,017

(1) For the twelve months ended March 31, 2019 and March 31, 2018, respectively.

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

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

The Company's unencumbered properties on a Non-Consolidated Basis as at March 31, 2019, are \$510,764 (December 31, 2018 - \$515,293).

The adoption of IFRS 16 on January 1, 2019 resulted in the initial recognition of land and office right-of-use assets included in real estate properties, hotel properties and other assets totalling \$161,614 and a corresponding lease liability. In addition, commencing January 1, 2019, land and office rent expense (previously included in EBITDA) is recorded in interest expense.

The adoption of IFRS 16 had a negative impact on the indebtedness to aggregate asset ratio, which would have been 39.9% excluding the adoption of IFRS 16.

The adoption of IFRS 16 had a negative impact to the interest coverage ratio, which would have been 2.92 times excluding the adoption of IFRS 16. The interest coverage ratio is calculated on a trailing twelve months basis and the three ended March 31, 2019 includes land and office rent as interest expense.

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

## **MORGUARD NON-CONSOLIDATED FINANCIAL STATEMENTS**

### **BALANCE SHEET**

As at March 31, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non- Consolidated Basis
<b>ASSETS</b>						
Real estate properties	\$9,746,826	(\$2,929,493)	(\$2,870,532)	\$—	(\$84,471)	\$3,862,330
Hotel properties	660,817	—	—	(399,102)	(28,768)	232,947
Equity-accounted and other fund investments	285,024	(24,414)	(40,579)	(10,748)	1,406,677	1,615,960
Investment in Class C LP Units	—	—	—	—	89,168	89,168
Other assets	552,050	(37,902)	(45,851)	(37,151)	137,861	569,007
<b>Total assets</b>	<b>\$11,244,717</b>	<b>(\$2,991,809)</b>	<b>(\$2,956,962)</b>	<b>(\$447,001)</b>	<b>\$1,520,467</b>	<b>\$6,369,412</b>
<b>LIABILITIES</b>						
Mortgage payable and Class C LP Units	\$4,257,412	(\$1,094,214)	(\$1,264,134)	(\$338,073)	\$26,929	\$1,587,920
Construction financing, loans and bank indebtedness	94,487	(75,693)	(1,645)	(79,500)	124,645	62,294
Class B LP Units	—	—	(316,044)	—	316,044	—
Unsecured Debentures	821,545	—	—	—	—	821,545
Convertible debentures	231,569	(169,305)	(86,276)	(40,647)	64,659	—
Lease Liabilities	169,977	(11,204)	(9,555)	(1,594)	195	147,819
Morguard Residential REIT Units	446,816	—	—	—	(446,816)	—
Deferred income tax liabilities	724,154	—	(110,978)	—	(613,176)	—
Accounts payable and accrued liabilities	262,491	(58,567)	(59,462)	(18,770)	8,207	133,899
<b>Total liabilities</b>	<b>7,008,451</b>	<b>(1,408,983)</b>	<b>(1,848,094)</b>	<b>(478,584)</b>	<b>(519,313)</b>	<b>2,753,477</b>
Equity / Adjusted shareholders' equity	4,236,266	(1,582,826)	(1,108,868)	31,583	2,039,780	3,615,935
<b>Total liabilities and equity</b>	<b>\$11,244,717</b>	<b>(\$2,991,809)</b>	<b>(\$2,956,962)</b>	<b>(\$447,001)</b>	<b>\$1,520,467</b>	<b>\$6,369,412</b>

### **COMPUTATION FOR INTEREST COVERAGE RATIO**

Twelve months ended March 31, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non- Consolidated Basis
Revenue from real estate properties	\$857,498	(\$277,682)	(\$245,532)	\$—	(\$6,646)	\$327,638
Revenue from hotel properties	237,713	—	—	(163,129)	—	74,584
Property operating expenses <sup>(1)</sup>	(360,175)	125,390	114,112	—	(24,889)	(145,562)
Hotel operating expenses	(182,232)	—	—	125,385	—	(56,847)
<b>Net operating income</b>	<b>552,804</b>	<b>(152,292)</b>	<b>(131,420)</b>	<b>(37,744)</b>	<b>(31,535)</b>	<b>199,813</b>
Management and advisory fees and distributions	59,310	—	—	—	46,288	105,598
Interest and other income	13,543	(88)	(79)	(266)	4,217	17,327
Sales of product and land, net of costs	1,667	—	—	—	—	1,667
Property management and corporate <sup>(2)</sup>	(97,769)	4,727	14,109	3,715	(11,811)	(87,029)
Other income (expense) <sup>(3)</sup>	2,960	—	—	(1,967)	—	993
Distributions from Morguard REIT and Morguard Residential REIT	—	—	—	—	48,983	48,983
<b>EBITDA</b>	<b>\$532,515</b>	<b>(\$147,653)</b>	<b>(\$117,390)</b>	<b>(\$36,262)</b>	<b>\$56,142</b>	<b>\$287,352</b>
Interest expense	\$219,460	(\$56,343)	(\$69,010)	(\$28,688)	\$34,040	\$99,459
Interest capitalized to development projects	1,339	(1,049)	—	—	—	290
<b>Interest expense for interest coverage ratio</b>	<b>\$220,799</b>	<b>(\$57,392)</b>	<b>(\$69,010)</b>	<b>(\$28,688)</b>	<b>\$34,040</b>	<b>\$99,749</b>

(1) An adjustment was made to exclude the land rent arbitration settlement recognized during the three months ended June 30, 2018.

(2) Morguard consolidated property management and corporate expense for the year ended March 31, 2019, includes a non-cash fair value adjustment relating to the Company's SARs liability and has been adjusted to add back the increase in SARs expense of \$7,503.

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

## CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	March 31, 2019	December 31, 2018
Morguard REIT	December 31, 2021	\$20.40	4.50%	\$175,000	\$60,000	<b>\$110,657</b>	\$110,166
Morguard Residential REIT <sup>(1)</sup>	March 31, 2023	\$20.20	4.50%	\$85,500	\$5,000	<b>81,276</b>	79,769
Temple - Series E <sup>(2)</sup>	April 8, 2019	\$9.75	7.25%	\$40,647	\$1,011	<b>39,636</b>	38,064
						<b>\$231,569</b>	\$227,999

<sup>(1)</sup> The liability includes the fair value of the conversion option of \$3,821 (December 31, 2018 - \$2,469).

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

### MORGUARD REIT

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

### MORGUARD RESIDENTIAL REIT

On March 15, 2013, Morguard Residential REIT issued \$60,000 principal amount of 4.65% convertible unsecured subordinated debentures and incurred issue costs of \$2,062 for net proceeds of \$57,938. On February 23, 2018, \$23 of the debentures were converted into 1,483 Units, and on February 26, 2018, the remaining \$59,977 (\$54,977 excluding principal owned by the Company) of the debentures were redeemed in advance of their March 30, 2018 maturity date.

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

### TEMPLE HOTELS INC.

As at March 31, 2019, the 7.25% Series E convertible debentures have a principal balance of \$40,647. The Series E convertible debentures are redeemable at the option of Temple at their principal amount. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year.

On September 28, 2017, holders of the Series E convertible debentures approved the following proposed amendments to the Series E convertible debentures, effective October 2, 2017:

- i) Decreasing the conversion price from \$40.08 to \$9.75 per common share of Temple;
- ii) Extending the maturity date from September 30, 2017 to September 30, 2020;
- iii) Permitting Temple to redeem the Series E convertible debentures, in whole or in part, at any time up to September 30, 2020, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding the date of the redemption; and
- iv) Permitting Temple to complete the Initial Partial Redemption (as defined below) without further notice or communication to holders of Series E convertible debentures and to complete the Additional Partial Redemptions (as defined below).

On October 2, 2017, Temple redeemed \$2,259 (\$2,202 excluding principal owned by the Company) of the principal amount of the Series E convertible debentures outstanding, which represents 5% of the issued and outstanding Series E convertible debentures (the "Initial Partial Redemption"). Temple has also committed to redeem an additional

5% of the issued and outstanding principal amount of Series E convertible debentures on each of September 30, 2018 and September 30, 2019 (the "Additional Partial Redemptions"). Each of the Initial Partial Redemption and the Additional Partial Redemptions will be for a cash payment equal to the principal amount of such redemption plus accrued and unpaid interest to, but excluding the date of redemption. On October 2, 2017, the convertible debentures, with the exception of \$2,120, the value assigned to the holder's conversion option, have been recorded as debt on the condensed consolidated balance sheets.

On October 1, 2018, the first business day after September 30, 2018, Temple redeemed \$2,258 (\$2,202 excluding principal owned by the Company) of the principal amount of the Series E convertible debentures outstanding.

For the three months ended March 31, 2019, interest on convertible debentures net of accretion of \$4,699 (2018 - \$4,524) is included in interest expense.

### **MORGUARD RESIDENTIAL REIT UNITS**

As at March 31, 2019 and December 31, 2018, the Company owned a 46.9% effective interest in Morguard Residential REIT through its ownership of 6,675,166 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.

As at March 31, 2019, the Company valued the non-controlling interest in Morguard Residential REIT Units at \$446,816 (December 31, 2018 - \$417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value loss for the three months ended March 31, 2019 of \$33,801 (2018 - gain of \$28,869) in the consolidated statements of income.

### **BANK INDEBTEDNESS**

As at March 31, 2019 and December 31, 2018, the Company has operating lines of credit totalling \$364,000, the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at March 31, 2019, the maximum amount that can be borrowed on the operating lines of credit is \$346,623 (December 31, 2018 - \$344,911) which includes deducting issued letters of credit in the amount of \$13,336 (December 31, 2018 - \$15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at March 31, 2019, the Company had borrowed \$55,193 (December 31, 2018 - \$225,160) on its operating lines of credit.

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

## LEASE LIABILITIES

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

As at	March 31, 2019	December 31, 2018
Balance, beginning of period	\$9,754	\$8,970
Adoption of IFRS 16	161,614	—
Principal payments	(490)	—
Dispositions	(684)	—
Foreign exchange gain (loss)	(217)	784
Balance, end of period	\$169,977	\$9,754

## EQUITY

Total equity increased by \$7,468 to \$4,236,266 at March 31, 2019, compared to \$4,228,798 at December 31, 2018.

The increase in equity was primarily the result of:

- Net income for the three months ended March 31, 2019 of \$38,959; and
- An actuarial gain on defined benefit pension plans of \$10,676.

These items were partially offset by:

- Unrealized foreign currency translation loss of \$29,472;
- Repurchase of common shares through the Company's NCIB (defined below) amounting to \$1,314;
- Non-controlling interest distributions of \$6,975; and
- Dividends paid of \$1,693.

During the three months ended March 31, 2019, 6,971 common shares were repurchased through the Company's normal course issuer bid ("NCIB") for cash consideration of \$1,314.

At March 31, 2019, 11,286,336 common shares were outstanding. As at May 7, 2019, 11,289,876 common shares were outstanding.

## PART V

### LIQUIDITY

Morguard uses a combination of existing cash, cash generated from operations, mortgages, bank indebtedness, project-specific financing and equity to finance its activities. For the three months ended March 31, 2019, Morguard received approximately \$13,306 in recurring distributions and dividends from subsidiaries and affiliated entities.

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

#### THREE MONTHS ENDED MARCH 31, 2019

##### Cash Provided by Operating Activities

Cash provided by operating activities during the three months ended March 31, 2019, was \$37,032, compared to \$65,543 in 2018. The cash provided by operating activities has been used to meet the Company's liquidity requirements, which consisted primarily of property re-leasing costs, maintenance costs and dividends to shareholders.

##### Cash Provided by (Used in) Investing Activities

Cash provided by investing activities during the three months ended March 31, 2019, totalled \$11,847, compared to cash used in investing activities of \$137,610 in 2018. The cash provided by investing activities reflects:

- Additions to real estate properties and tenant improvements of \$11,544;
- Additions to hotel properties of \$5,857;
- Additions to capital and intangible assets of \$139;
- Net proceeds from sale of real estate properties of \$37,050;
- Net proceeds from sale of hotel properties of \$1,849;
- Investment in properties under development of \$7,272; and
- Investment in equity-accounted and other fund investments, net of \$2,240.

##### Cash Provided by (Used in) Financing Activities

Cash used in financing activities during the three months ended March 31, 2019, totalled \$23,542, compared to cash provided by financing of \$104,781 in 2018. The cash used in financing activities reflects:

- Proceeds from new mortgages, net financing cost of \$11,016;
- Repayment of mortgages on maturity of \$16,253;
- Repayment of mortgages due to extinguishments of \$18,331;
- Mortgage principal repayments of \$27,618;
- Principal payment of lease liabilities of \$490;
- Net repayment of bank indebtedness of \$169,967;
- Proceeds from issuance of unsecured debentures, net of costs of \$223,575;
- Net repayment of loans payable of \$22,781;
- Dividends paid of \$1,668;
- Distributions to non-controlling interest of \$4,786;
- Common shares repurchased for cancellation of \$1,314; and
- A decrease in restricted cash of \$5,075.

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## PART VI

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### 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 December 10, 2013, 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 March 31, 2019 was \$nil (December 31, 2018 - \$12,500). During the three months ended March 31, 2019, the Company incurred net interest expense of \$30 (2018 - \$nil).

#### 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 period ended March 31, 2019, the Company received a management fee of \$326 (2018 - \$205) and paid rent and operating expenses of \$176 (2018 - \$150).

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 March 31, 2019 was \$39,294 (December 31, 2018 - \$47,809). During the three months ended March 31, 2019, the Company paid net interest of \$403 (2018 - earned interest of \$75).

#### SHARE/UNIT PURCHASE AND OTHER LOANS

As at March 31, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of \$5,433 (December 31, 2018 - \$5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable on the consolidated balance sheets. As at March 31, 2019, the fair market value of the common shares/Units held as collateral is \$100,629.

## PART VII

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed consolidated financial statements for the three months ended March 31, 2019 and 2018, have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the IASB. The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies as described below, and should be read in conjunction with the most recent annual consolidated financial statements.

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

### FINANCIAL INSTRUMENTS

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

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

Financial assets must be classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Fair values of financial assets and financial liabilities are presented as follows:

#### Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using March 31, 2019, market rates for debts of similar terms. Based on these assumptions, the fair value as at March 31, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at \$4,365,955 (December 31, 2018 - \$4,428,532), compared with the carrying value of \$4,264,373 (December 31, 2018 - \$4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price. As at March 31, 2019, the fair value of the Unsecured Debentures has been estimated at \$837,364 (December 31, 2018 - \$603,624) compared with the carrying value of \$825,000 (December 31, 2018 - \$600,000).

The fair value of the convertible debentures liability is based on their market trading prices. As at March 31, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at \$236,547 (December 31, 2018 - \$229,797), compared with the carrying value of \$235,136 (December 31, 2018 - \$235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the financial receivable using March 31, 2019, market rates for debt on similar terms. Based on these assumptions, as at March 31, 2019, the fair value of the finance lease receivable has been estimated at \$56,098 (December 31, 2018 - \$55,941).

## ADOPTION OF ACCOUNTING STANDARDS

### Current Accounting Policy Changes

#### IFRS 16, Leases ("IFRS 16")

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

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

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

#### *Leases previously classified as finance leases*

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

#### *Leases previously accounted for as operating leases*

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

The Company also applied the available practical expeditents wherein it:

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

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

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

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

*Summary of new accounting policies which have been applied from the date of initial application*

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

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

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

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

**Amendments to IAS 19, Employee Benefits (2011) ("IAS 19")**

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

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

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

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

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

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

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

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

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

### **RISKS AND UNCERTAINTIES**

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

### **CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION**

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

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, has concluded that their design is adequate and effective as of and for the three months ended March 31, 2019. The Company's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design is effective as of and for the three months ended March 31, 2019.

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

## PART VIII

### SUMMARY OF QUARTERLY INFORMATION

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

(In thousands of dollars, except per common share amounts)	Total Revenue	NOI	Adjusted NOI	FFO	Net Income	Common Shareholders	Net Income Attributable to Common Shareholders	Net Income to Common Shareholders per share - basic/diluted
<b>March 31, 2019</b>	<b>\$290,645</b>	<b>\$104,574</b>	<b>\$132,875</b>	<b>\$53,566</b>	<b>\$38,959</b>	<b>\$33,486</b>	<b>\$2.97</b>	
December 31, 2018	301,302	142,611	134,863	52,410	68,451	80,889		7.13
September 30, 2018	294,033	145,384	136,885	56,909	54,688	46,750		4.11
June 30, 2018	287,725	160,235	135,185	73,166	95,894	75,604		6.62
March 31, 2018	274,818	99,745	123,268	49,911	125,025	116,608		10.10
December 31, 2017	287,523	139,663	131,934	68,596	109,084	115,300		9.73
September 30, 2017	279,612	138,374	131,440	55,448	23,264	27,552		2.33
June 30, 2017	275,700	134,737	128,508	53,427	179,567	151,526		12.72

### SUMMARY OF QUARTERLY RESULTS

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

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

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

During the second quarter of 2018, the Company reached a land rent arbitration settlement agreement on the fair market value of the land for the period from July 1, 2010 through June 30, 2030 that resulted in the annual land rent increasing from \$2,779 to \$8,760. In accordance with the Majority Decision, for the period from July 1, 2010 to April 30, 2018, the Company recorded annual land rent of \$10,962 and reversed \$17,250 (pre-tax) of land rent previously expensed during the second quarter of 2018.

### Significant Real Estate Property Transactions During the Period Ended March 31, 2019

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

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

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

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

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

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

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

### **Significant Real Estate Property Transactions During the Year Ended December 31, 2017**

During the third quarter of 2017, the Company acquired three multi-suite residential properties comprising 1,111 suites and three office properties consisting of approximately 384,500 square feet of commercial area. In addition, during the third quarter of 2017, the Company disposed of four multi-suite residential properties comprising 1,329 suites and one hotel property comprising 90 rooms.

During the second quarter of 2017, the Company acquired a multi-suite residential property comprising 60 rental townhomes and an office property consisting of approximately 36,500 square feet of commercial area.

### **Revenue and Net Operating Income**

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

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

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

### **Net Income Attributable to Common Shareholders**

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

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

## SUBSEQUENT EVENTS

On April 4, 2019, Temple completed a rights offering and issued 25,022,329 common shares at a price of \$1.75 per share for gross proceeds of \$43,789. Morguard acquired 21,045,702 common shares for \$36,830 increasing its ownership in Temple to 71.4%.

On April 8, 2019, Temple fully repaid the 7.25% Series E convertible debentures in the amount of \$40,647.

On April 29, 2019, Temple announced that it has filed a rights offering circular for the subscription of up to 50,044,658 rights and gross proceeds of up to \$37,533. A maximum of 25,022,329 common shares will be issued as each right will entitle the holder thereof to subscribe for one-half of a common share upon payment of the subscription price of \$1.50 per common share.

On April 30, 2019, the Company sold a property located in Harahan, Louisiana, comprising 48 suites, for gross proceeds of \$4,630 (US\$3,440) and the purchaser assumed the mortgage secured by the property in the amount of \$2,860 (US\$2,125).

## CONSOLIDATED FINANCIAL STATEMENTS

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## BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	March 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Real estate properties	5	\$9,746,826	\$9,645,596
Hotel properties	6	660,817	666,078
Equity-accounted and other fund investments	7	285,024	281,464
Other assets	8	296,602	285,103
		<b>10,989,269</b>	<b>10,878,241</b>
<b>Current assets</b>			
Mortgages and loans receivable		1,658	1,686
Amounts receivable		81,663	76,879
Prepaid expenses and other		33,170	15,551
Cash		138,957	110,401
		<b>255,448</b>	<b>204,517</b>
		<b>\$11,244,717</b>	<b>\$11,082,758</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Non-current liabilities</b>			
Mortgages payable	9	\$3,512,504	\$3,573,185
Unsecured debentures	10	821,545	597,697
Convertible debentures	11	191,933	225,936
Lease liabilities	13	167,827	9,754
Morguard Residential REIT Units	12	446,816	417,481
Deferred income tax liabilities		724,154	717,943
		<b>5,864,779</b>	<b>5,541,996</b>
<b>Current liabilities</b>			
Mortgages payable	9	744,908	789,516
Convertible debentures	11	39,636	2,063
Loans payable	21	39,294	60,309
Accounts payable and accrued liabilities	14	264,641	234,916
Bank indebtedness	15	55,193	225,160
		<b>1,143,672</b>	<b>1,311,964</b>
<b>Total liabilities</b>		<b>7,008,451</b>	<b>6,853,960</b>
<b>EQUITY</b>			
Shareholders' equity		3,442,184	3,431,366
Non-controlling interest		794,082	797,432
<b>Total equity</b>		<b>4,236,266</b>	<b>4,228,798</b>
		<b>\$11,244,717</b>	<b>\$11,082,758</b>
<b>Contingencies</b>		25	

See accompanying notes to the condensed consolidated financial statements.

## STATEMENTS OF INCOME

In thousands of Canadian dollars, except per common share amounts

For the three months ended March 31	Note	2019	2018
Revenue from real estate properties	17	\$219,840	\$203,839
Revenue from hotel properties	17	53,627	53,852
Property operating expenses			
Property operating costs		(45,844)	(44,199)
Utilities		(15,763)	(15,173)
Realty taxes		(62,772)	(55,804)
Hotel operating expenses		(44,514)	(42,770)
<b>Net operating income</b>		<b>104,574</b>	<b>99,745</b>
<b>OTHER REVENUE</b>			
Management and advisory fees	17	11,651	14,437
Interest and other income		4,036	1,440
Sales of product and land		1,491	1,250
		<b>17,178</b>	<b>17,127</b>
<b>EXPENSES</b>			
Interest	18	59,047	50,051
Property management and corporate		27,532	22,428
Cost of sales of product and land		1,128	852
Amortization of hotel properties	6	6,772	6,512
Amortization of capital assets and other		2,017	1,624
		<b>96,496</b>	<b>81,467</b>
<b>OTHER INCOME (EXPENSE)</b>			
Fair value gain (loss), net	19	20,956	96,007
Equity income from investments	7	1,446	589
Other income (expense)	20	185	2,199
		<b>22,587</b>	<b>98,795</b>
<b>Income before income taxes</b>		<b>47,843</b>	<b>134,200</b>
Provision for income taxes	22		
Current		1,138	1,682
Deferred		7,746	7,493
		<b>8,884</b>	<b>9,175</b>
<b>Net income for the period</b>		<b>\$38,959</b>	<b>\$125,025</b>
<b>Net income attributable to:</b>			
Common shareholders		\$33,486	\$116,608
Non-controlling interest		5,473	8,417
		<b>\$38,959</b>	<b>\$125,025</b>
<b>Net income per common share attributable to:</b>			
Common shareholders - basic and diluted	23	<b>\$2.97</b>	<b>\$10.10</b>

See accompanying notes to the condensed consolidated financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

For the three months ended March 31	2019	2018
<b>Net income for the period</b>	<b>\$38,959</b>	\$125,025
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<b>Items that may be reclassified subsequently to net income:</b>		
Unrealized foreign currency translation gain (loss)	(29,472)	34,920
Gain on interest rate swap agreement	—	89
	(29,472)	35,009
Deferred income tax recovery (provision)	92	(285)
	(29,380)	34,724
<b>Items that will not be reclassified subsequently to net income:</b>		
Actuarial gain on defined benefit pension plans	10,676	3,873
Deferred income tax provision	(2,830)	(1,028)
	7,846	2,845
Other comprehensive income (loss)	(21,534)	37,569
<b>Total comprehensive income for the period</b>	<b>\$17,425</b>	\$162,594
<b>Total comprehensive income attributable to:</b>		
Common shareholders	\$13,800	\$151,690
Non-controlling interest	3,625	10,904
	\$17,425	\$162,594

*See accompanying notes to the condensed consolidated financial statements.*

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Retained Earnings	Accumulated Other Comprehensive Income	Share Capital	Shareholders' Equity	Total Non-Controlling Interest	Total
Shareholders' equity, January 1, 2018		\$2,785,739	\$189,982	\$106,952	\$3,082,673	\$851,696	\$3,934,369
Changes during the period:							
Net income		116,608	—	—	116,608	8,417	125,025
Other comprehensive income		—	35,082	—	35,082	2,487	37,569
Dividends		(1,722)	—	—	(1,722)	—	(1,722)
Distributions		—	—	—	—	(7,244)	(7,244)
Issuance of common shares		—	—	37	37	—	37
Repurchase of common shares		(65,662)	—	(3,477)	(69,139)	—	(69,139)
Adjustment on adoption of IFRS 9		17,315	(17,315)	—	—	—	—
Change in ownership of Morguard REIT		12,433	—	—	12,433	(28,207)	(15,774)
Change in ownership of Temple Hotels Inc.		328	—	—	328	(2,045)	(1,717)
Shareholders' equity, March 31, 2018		\$2,865,039	\$207,749	\$103,512	\$3,176,300	\$825,104	\$4,001,404
Changes during the period:							
Net income		203,243	—	—	203,243	15,790	219,033
Other comprehensive income		—	65,605	—	65,605	5,150	70,755
Dividends		(5,120)	—	—	(5,120)	—	(5,120)
Distributions		—	—	—	—	(22,534)	(22,534)
Issuance of common shares		—	—	102	102	—	102
Repurchase of common shares		(22,058)	—	(1,178)	(23,236)	—	(23,236)
Change in ownership of Morguard REIT		14,488	—	—	14,488	(25,643)	(11,155)
Change in ownership of Temple Hotels Inc.		(16)	—	—	(16)	(435)	(451)
<b>Shareholders' equity, December 31, 2018</b>		<b>\$3,055,576</b>	<b>\$273,354</b>	<b>\$102,436</b>	<b>\$3,431,366</b>	<b>\$797,432</b>	<b>\$4,228,798</b>
Changes during the period:							
Net income		33,486	—	—	33,486	5,473	38,959
Other comprehensive loss		—	(19,686)	—	(19,686)	(1,848)	(21,534)
Dividends	16(a)	(1,693)	—	—	(1,693)	—	(1,693)
Distributions		—	—	—	—	(6,975)	(6,975)
Issuance of common shares	16(a)	—	—	25	25	—	25
Repurchase of common shares	16(a)	(1,251)	—	(63)	(1,314)	—	(1,314)
<b>Shareholders' equity, March 31, 2019</b>		<b>\$3,086,118</b>	<b>\$253,668</b>	<b>\$102,398</b>	<b>\$3,442,184</b>	<b>\$794,082</b>	<b>\$4,236,266</b>

See accompanying notes to the condensed consolidated financial statements.

## STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

<b>For the three months ended March 31</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>			
Net income for the period		\$38,959	\$125,025
Add (deduct) items not affecting cash	24(a)	20,562	(61,313)
Distributions from equity-accounted investments	7	859	1,007
Land held for residential development and sale		—	(56)
Additions to development property - inventory		—	(454)
Additions to tenant incentives and leasing commissions	5	(906)	(1,298)
Net change in operating assets and liabilities	24(b)	(22,442)	2,632
<b>Cash provided by operating activities</b>		<b>37,032</b>	<b>65,543</b>
<b>INVESTING ACTIVITIES</b>			
Additions to real estate properties and tenant improvements	5	(11,544)	(113,570)
Additions to hotel properties	6	(5,857)	(6,230)
Additions to capital and intangible assets		(139)	(893)
Proceeds from sale of real estate properties, net	5	37,050	—
Proceeds from the sale of hotel properties, net	6	1,849	—
Investment in properties under development	5	(7,272)	(19,679)
Investment in equity-accounted and other fund investments, net	7	(2,240)	(1,903)
Investment in marketable securities		—	(7,185)
Increase in mortgages and loans receivable		—	11,850
<b>Cash provided by (used in) investing activities</b>		<b>11,847</b>	<b>(137,610)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from new mortgages		11,253	2,060
Financing costs on new mortgages		(237)	(27)
Repayment of mortgages			
Repayments on maturity		(16,253)	(276)
Repayments due to mortgage extinguishments		(18,331)	—
Principal instalment repayments		(27,618)	(27,468)
Principal payment of lease liabilities		(490)	—
Proceeds from bank indebtedness		49,482	324,117
Repayment of bank indebtedness		(219,449)	(123,345)
Proceeds from issuance of unsecured debentures, net of costs	10	223,575	—
Proceeds from issuance of convertible debentures, net of costs	11	—	77,125
Redemption of convertible debentures	11	—	(54,977)
Proceeds from construction financing		—	428
Proceeds from (repayment of) loans payable, net		(22,781)	1,627
Dividends paid		(1,668)	(1,685)
Distributions to non-controlling interest		(4,786)	(5,007)
Common shares repurchased for cancellation	16(a)	(1,314)	(69,139)
Investment in Morguard REIT	16(b)	—	(15,774)
Investment in Temple Hotels Inc.	16(b)	—	(1,717)
Decrease (increase) in restricted cash		5,075	(1,161)
<b>Cash provided by (used in) financing activities</b>		<b>(23,542)</b>	<b>104,781</b>
<b>Net increase in cash during the period</b>		<b>25,337</b>	<b>32,714</b>
Net effect of foreign currency translation on cash balance		3,219	(3,308)
Cash, beginning of period		110,401	134,450
<b>Cash, end of period</b>		<b>\$138,957</b>	<b>\$163,856</b>

See accompanying notes to the condensed consolidated financial statements.

## NOTES

For the three months ended March 31, 2019 and 2018

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

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### NOTE 1

#### NATURE AND DESCRIPTION OF COMPANY

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

### NOTE 2

#### STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on May 7, 2019.

#### Foreign Exchange

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

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at March 31	\$0.7483	\$0.7756
- As at December 31	—	0.7330
- Average for the three months ended March 31	<b>0.7522</b>	0.7907
United States dollar to Canadian dollar exchange rates:		
- As at March 31	1.3363	1.2894
- As at December 31	—	1.3642
- Average for the three months ended March 31	<b>1.3295</b>	1.2647

### NOTE 3

#### ADOPTION OF ACCOUNTING STANDARDS

##### Current Accounting Policy Changes

##### IFRS 16, Leases (“IFRS 16”)

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

The Company adopted the standard on January 1, 2019 using a modified retrospective approach. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also

elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

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

#### *Leases previously classified as finance leases*

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

#### *Leases previously accounted for as operating leases*

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

#### *Summary of new accounting policies which have been applied from the date of initial application*

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

Right-of-use assets not meeting the definition of an investment property are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use

assets includes the amount of lease liability recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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

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

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

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

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

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

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

#### **IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”)**

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

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

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

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

**NOTE 4****SUBSIDIARIES WITH NON-CONTROLLING INTEREST****Morguard North American Residential Real Estate Investment Trust (“Morguard Residential REIT” or “MRG”)**

As at March 31, 2019 and December 31, 2018, the Company owned a 46.9% effective interest in Morguard Residential REIT through its ownership of 6,675,166 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”). Refer to the Company’s most recent annual audited consolidated financial statements for the factors that continue to support the conclusion that the Company has *de facto* control of Morguard Residential REIT.

During the three months ended March 31, 2019, Morguard Residential REIT recorded distributions of \$5,727, or \$0.1698 per Unit (2018 - \$5,560, or \$0.165 per Unit), of which \$1,133 was paid to the Company (2018 - \$1,101) and \$4,594 was paid to the remaining Unitholders (2018 - \$4,459). In addition, during the three months ended March 31, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of \$2,924 (2018 - \$2,842).

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

As at March 31, 2019 and December 31, 2018, the Company owned 34,957,041 Units of Morguard REIT, which represents a 57.6% ownership.

During the three months ended March 31, 2019, Morguard REIT recorded distributions of \$14,567, or \$0.24 per Unit (2018 - \$14,567, or \$0.24 per Unit), of which \$8,390 was paid to the Company (2018 - \$8,160) and \$6,177 was paid to the remaining Unitholders (2018 - \$6,407).

**Temple Hotels Inc. (“Temple”)**

As at March 31, 2019 and December 31, 2018, the Company owned 14,685,907 common shares of Temple, which represents a 58.7% ownership.

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	March 31, 2019			December 31, 2018		
	MRT	MRG	Temple	MRT	MRG	Temple
Non-current assets	\$2,952,870	\$2,911,111	\$476,492	\$2,938,915	\$2,973,694	\$484,730
Current assets	37,434	45,851	31,288	38,153	37,775	26,345
<b>Total assets</b>	<b>\$2,990,304</b>	<b>\$2,956,962</b>	<b>\$507,780</b>	<b>\$2,977,068</b>	<b>\$3,011,469</b>	<b>\$511,075</b>
Non-current liabilities	\$1,109,123	\$1,664,530	\$152,730	\$1,096,488	\$1,699,959	\$178,507
Current liabilities	316,163	183,564	325,299	319,607	183,649	296,536
<b>Total liabilities</b>	<b>\$1,425,286</b>	<b>\$1,848,094</b>	<b>\$478,029</b>	<b>\$1,416,095</b>	<b>\$1,883,608</b>	<b>\$475,043</b>
<b>Equity</b>	<b>\$1,565,018</b>	<b>\$1,108,868</b>	<b>\$29,751</b>	<b>\$1,560,973</b>	<b>\$1,127,861</b>	<b>\$36,032</b>
<b>Non-controlling interest</b>	<b>\$664,654</b>	<b>\$588,787</b>	<b>\$11,889</b>	<b>\$662,904</b>	<b>\$598,793</b>	<b>\$14,691</b>

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

For the three months ended March 31	2019			2018		
	MRT	MRG	Temple	MRT	MRG	Temple
Revenue	\$70,454	\$62,258	\$34,531	\$69,245	\$58,094	\$37,211
Expenses	(46,228)	(65,697)	(41,317)	(43,533)	(72,754)	(42,533)
Fair value gain (loss) on real estate properties, net	(5,680)	27,833	—	(5,995)	71,470	—
Fair value gain (loss) on Class B LP Units	—	(20,668)	—	—	23,596	—
<b>Net income (loss) for the period</b>	<b>\$18,546</b>	<b>\$3,726</b>	<b>(\$6,786)</b>	<b>\$19,717</b>	<b>\$80,406</b>	<b>(\$5,322)</b>
<b>Non-controlling interest</b>	<b>\$7,864</b>	<b>\$1,978</b>	<b>(\$2,802)</b>	<b>\$8,675</b>	<b>\$42,664</b>	<b>(\$2,292)</b>

For the three months ended March 31	2019			2018		
	MRT	MRG	Temple	MRT	MRG	Temple
Cash provided by (used in) operating activities	\$13,364	\$8,404	(\$1,715)	\$25,296	\$3,943	\$1,627
Cash provided by (used in) investing activities	(8,071)	31,764	1,119	(10,379)	(4,208)	(3,284)
Cash provided by (used in) financing activities	(5,177)	(34,361)	3,833	(11,694)	(6,571)	38,530
<b>Net increase (decrease) in cash during the period</b>	<b>\$116</b>	<b>\$5,807</b>	<b>\$3,237</b>	<b>\$3,223</b>	<b>(\$6,836)</b>	<b>\$36,873</b>

## NOTE 5

### REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at	March 31, 2019	December 31, 2018
Income producing properties	\$9,622,116	\$9,511,302
Properties under development	47,092	56,717
Land held for development	77,618	77,577
	<b>\$9,746,826</b>	<b>\$9,645,596</b>

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

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2018	\$9,511,302	\$56,717	\$77,577	\$9,645,596
Additions:				
Capital expenditures	9,382	—	—	9,382
Development expenditures	—	7,238	34	7,272
Tenant improvements, incentives and leasing commissions	3,068	—	—	3,068
Transfers	16,521	(16,521)	—	—
Dispositions	(59,381)	—	—	(59,381)
Adoption of IFRS 16 (Note 3)	153,610	—	—	153,610
Fair value gain (loss), net	47,722	—	367	48,089
Foreign currency translation	(59,546)	(342)	(360)	(60,248)
Other	(562)	—	—	(562)
Balance as at March 31, 2019	<b>\$9,622,116</b>	<b>\$47,092</b>	<b>\$77,618</b>	<b>\$9,746,826</b>

## Transactions Completed During the Three Months Ended March 31, 2019

### Dispositions

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

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

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

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

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

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

### Capitalization Rates

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

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

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

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

As at	March 31, 2019						December 31, 2018					
	Occupancy Rates			Capitalization Rates			Occupancy Rates			Capitalization Rates		
	Max.	Min.		Max.	Min.	Weighted Average	Max.	Min.		Max.	Min.	Weighted Average
Multi-suite residential	98.0%	92.0%		7.3%	3.5%	4.5%	98.0%	90.0%		7.8%	3.5%	4.5%
Retail	100.0%	80.0%		12.0%	5.3%	6.4%	100.0%	80.0%		12.0%	5.3%	6.4%
Office	100.0%	90.0%		7.8%	4.3%	6.0%	100.0%	90.0%		7.5%	4.3%	6.0%
Industrial	100.0%	95.0%		7.0%	5.0%	5.7%	100.0%	95.0%		7.5%	5.0%	5.8%

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

As at	March 31, 2019			December 31, 2018		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
<b>Retail</b>						
Discount rate	10.3%	6.0%	6.9%	10.3%	6.0%	6.9%
Terminal cap rate	9.5%	5.3%	5.9%	9.5%	5.3%	5.9%
<b>Office</b>						
Discount rate	8.0%	5.3%	6.5%	8.0%	5.1%	6.4%
Terminal cap rate	7.3%	4.3%	5.8%	7.3%	4.3%	5.7%
<b>Industrial</b>						
Discount rate	7.5%	6.0%	6.6%	7.3%	6.0%	6.5%
Terminal cap rate	7.0%	5.0%	5.8%	6.8%	5.0%	5.8%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rates were to increase or decrease by 25 basis points (assuming no change in stabilized net operating income), the value of the income producing properties as at March 31, 2019, would decrease by \$416,811 and increase by \$459,548, respectively.

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

As at	March 31, 2019	December 31, 2018
<b>Change in capitalization rate:</b>	0.25% (0.25%)	0.25% (0.25%)
Multi-suite residential	(\$232,418) \$259,629	(\$241,337) \$270,194
Retail	(93,602) 101,245	(94,615) 102,416
Office	(84,297) 91,579	(84,780) 92,160
Industrial	(6,494) 7,095	(6,266) 6,826
	<b>(\$416,811) \$459,548</b>	<b>(\$426,998) \$471,596</b>

## NOTE 6 HOTEL PROPERTIES

Hotel properties consist of the following:

<b>As at March 31, 2019</b>	<b>Cost</b>	<b>Accumulated Impairment Provision</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$97,111	(\$2,407)	\$—	\$94,704
Buildings	590,419	(46,382)	(37,243)	506,794
Furniture, fixtures, equipment and other	99,693	(5,469)	(36,487)	57,737
Right-of-use asset - land lease	1,596	—	(14)	1,582
	<b>\$788,819</b>	<b>(\$54,258)</b>	<b>(\$73,744)</b>	<b>\$660,817</b>

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

Transactions in hotel properties for the three months ended March 31, 2019, are summarized as follows:

<b>As at March 31, 2019</b>	<b>Opening Net Book Value</b>	<b>Adoption of IFRS 16 (Note 3)</b>	<b>Additions</b>	<b>Disposition</b>	<b>Amortization</b>	<b>Closing Net Book Value</b>
Land	\$94,704	\$—	\$—	\$—	\$—	\$94,704
Buildings	510,077	—	5,025	(4,982)	(3,326)	506,794
Furniture, fixtures, equipment and other	61,297	—	832	(960)	(3,432)	57,737
Right-of-use asset - land lease	—	2,280	—	(684)	(14)	1,582
	<b>\$666,078</b>	<b>\$2,280</b>	<b>\$5,857</b>	<b>(\$6,626)</b>	<b>(\$6,772)</b>	<b>\$660,817</b>

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

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

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

## NOTE 7

### EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at	March 31, 2019	December 31, 2018
Joint ventures	\$52,534	\$52,803
Associates	125,601	124,677
Equity-accounted investments	178,135	177,480
Other real estate fund investments	106,889	103,984
Equity-accounted and other fund investments	<b>\$285,024</b>	\$281,464

#### Equity-accounted investments

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

Property/Investment	Principal Place of Business	Investment Type	Asset Type	Company's Ownership		Carrying Value	
				March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	50.0%	50.0%	\$24,414	\$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	50.0%	50.0%	6,981	7,031
Greypoint Capital L.P.	Toronto, ON	Joint Venture	Other	36.4%	36.4%	5,662	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	50.0%	50.0%	10,801	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	50.0%	50.0%	4,676	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	59.1%	59.1%	55,521	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	49.0%	49.0%	51,617	53,476
MIL Industrial Fund II LP <sup>(1)</sup>	Various	Associate	Industrial	18.8%	18.8%	18,463	18,555
						<b>\$178,135</b>	\$177,480

<sup>(1)</sup> The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

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

As at	March 31, 2019	December 31, 2018
Balance, beginning of period	\$177,480	\$187,365
Additions	2,240	7,786
Share of net income (loss)	1,446	(22,654)
Distributions received	(859)	(4,472)
Foreign exchange gain (loss)	(2,172)	9,455
Balance, end of period	<b>\$178,135</b>	\$177,480

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

As at	March 31, 2019			December 31, 2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Non-current assets	\$204,610	\$783,066	\$987,676	\$206,391	\$778,155	\$984,546
Current assets	28,611	9,781	38,392	29,438	9,756	39,194
<b>Total assets</b>	<b>\$233,221</b>	<b>\$792,847</b>	<b>\$1,026,068</b>	<b>\$235,829</b>	<b>\$787,911</b>	<b>\$1,023,740</b>
Non-current liabilities	\$115,328	\$342,107	\$457,435	\$116,410	\$343,393	\$459,803
Current liabilities	8,124	119,338	127,462	8,720	116,734	125,454
<b>Total liabilities</b>	<b>\$123,452</b>	<b>\$461,445</b>	<b>\$584,897</b>	<b>\$125,130</b>	<b>\$460,127</b>	<b>\$585,257</b>
<b>Net assets</b>	<b>\$109,769</b>	<b>\$331,402</b>	<b>\$441,171</b>	<b>\$110,699</b>	<b>\$327,784</b>	<b>\$438,483</b>
<b>Equity-accounted investments</b>	<b>\$52,534</b>	<b>\$125,601</b>	<b>\$178,135</b>	<b>\$52,803</b>	<b>\$124,677</b>	<b>\$177,480</b>

For the three months ended March 31	2019			2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	\$8,001	\$9,771	\$17,772	\$8,861	\$8,736	\$17,597
Expenses	(5,680)	(9,553)	(15,233)	(5,912)	(6,166)	(12,078)
Fair value gain (loss) on real estate properties, net	(996)	812	(184)	112	(2,858)	(2,746)
<b>Net income (loss) for the period</b>	<b>\$1,325</b>	<b>\$1,030</b>	<b>\$2,355</b>	<b>\$3,061</b>	<b>(\$288)</b>	<b>\$2,773</b>
<b>Income (loss) in equity-accounted investments</b>	<b>\$590</b>	<b>\$856</b>	<b>\$1,446</b>	<b>\$1,337</b>	<b>(\$748)</b>	<b>\$589</b>

**(b) Income Recognized from Other Fund Investments:**

**Other Real Estate Fund Investments**

For the three months ended March 31	2019	2018
Distribution income	\$751	\$660
Fair value gain for the period (Note 19)	5,035	1,166
Income from other real estate fund investments	<b>\$5,786</b>	<b>\$1,826</b>

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.

**NOTE 8**

**OTHER ASSETS**

Other assets consist of the following:

As at	March 31, 2019	December 31, 2018
Accrued pension benefit asset	\$84,586	\$73,981
Goodwill	24,488	24,488
Capital assets, net	11,582	11,729
Right-of-use asset - office lease (Note 3)	5,419	—
Intangible assets, net	38,188	39,749
Inventory	3,060	3,199
Inventory - development properties	444	444
Finance lease receivable	56,098	55,941
Investment in marketable securities	41,193	38,606
Restricted cash	30,678	36,117
Other	866	849
	<b>\$296,602</b>	<b>\$285,103</b>

**Finance Lease Receivable**

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

## NOTE 9

### MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	March 31, 2019	December 31, 2018
Mortgages payable	<b>\$4,264,373</b>	\$4,369,811
Mark-to-market adjustments, net	15,976	17,455
Deferred financing costs	(22,937)	(24,565)
	<b>\$4,257,412</b>	\$4,362,701
Current	\$744,908	\$789,516
Non-current	3,512,504	3,573,185
	<b>\$4,257,412</b>	\$4,362,701
Range of interest rates	2.25 - 8.95%	2.25 - 8.95%
Weighted average contractual interest rate	3.88%	3.87%
Estimated fair value of mortgages payable	<b>\$4,365,955</b>	\$4,428,532

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

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of year)	\$76,500	\$643,167	\$719,667	4.45%
2020	99,624	164,293	263,917	4.76%
2021	94,567	393,033	487,600	4.38%
2022	88,024	384,446	472,470	3.65%
2023	66,829	539,442	606,271	3.60%
Thereafter	216,826	1,497,622	1,714,448	3.64%
	<b>\$642,370</b>	<b>\$3,622,003</b>	<b>\$4,264,373</b>	3.88%

The Company's first mortgages are registered against specific real estate assets. As at March 31, 2019, mortgages payable mature between 2019 and 2058 and have a weighted average term to maturity of 5.0 years (December 31, 2018 - 5.2 years). Approximately 93.6% of the Company's mortgages have fixed interest rates.

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

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at March 31, 2019, Temple was not in compliance with seven (December 31, 2018 - seven) debt service covenants affecting seven (December 31, 2018 - seven) mortgage loans amounting to \$103,797 (December 31, 2018 - \$104,525). Subsequent to March 31, 2019, the Company received a waiver in regard to one mortgage loan with an aggregate amount of \$14,497. None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes \$33,883 scheduled to retire after March 31, 2020.

**NOTE 10****UNSECURED DEBENTURES**

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

As at	Coupon		March 31, 2019	December 31, 2018
	Maturity Date	Interest Rate		
Series B senior unsecured debentures	November 18, 2020	4.013%	<b>\$200,000</b>	\$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	<b>200,000</b>	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	<b>200,000</b>	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	<b>225,000</b>	—
Unamortized financing costs			<b>(3,455)</b>	(2,303)
			<b>\$821,545</b>	\$597,697

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

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

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

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

For the three months ended March 31, 2019, interest on the Unsecured Debentures of \$8,020 (2018 - \$5,480) is included in interest expense (Note 18).

## NOTE 11 CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	March 31, 2019	December 31, 2018
Morguard REIT	December 31, 2021	\$20.40	4.50%	\$175,000	\$60,000	\$110,657	\$110,166
Morguard Residential REIT <sup>(1)</sup>	March 31, 2023	\$20.20	4.50%	\$85,500	\$5,000	81,276	79,769
Temple - Series E <sup>(2)</sup>	April 8, 2019	\$9.75	7.25%	\$40,647	\$1,011	39,636	38,064
						\$231,569	\$227,999
Current						\$39,636	\$2,063
Non-current						191,933	225,936
						\$231,569	\$227,999

<sup>(1)</sup> As at March 31, 2019, the liability includes the fair value of the conversion option of \$3,821 (December 31, 2018 - \$2,469).

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

### Morguard REIT

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

### Morguard Residential REIT

On March 15, 2013, Morguard Residential REIT issued \$60,000 principal amount of 4.65% convertible unsecured subordinated debentures and incurred issue costs of \$2,062 for net proceeds of \$57,938. On February 23, 2018, \$23 of the debentures were converted into 1,483 Units, and on February 26, 2018, the remaining \$59,977 (\$54,977 excluding principal owned by the Company) of the debentures were redeemed in advance of their March 30, 2018 maturity date.

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

### Temple Hotels Inc.

As at March 31, 2019, the 7.25% Series E convertible debentures have a principal balance of \$40,647. The Series E convertible debentures are redeemable at the option of Temple at their principal amount. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year.

On September 28, 2017, holders of the Series E convertible debentures approved the following proposed amendments to the Series E convertible debentures, effective October 2, 2017:

- i) Decreasing the conversion price from \$40.08 to \$9.75 per common share of Temple;
- ii) Extending the maturity date from September 30, 2017 to September 30, 2020;
- iii) Permitting Temple to redeem the Series E convertible debentures, in whole or in part, at any time up to September 30, 2020, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding the date of the redemption; and
- iv) Permitting Temple to complete the Initial Partial Redemption (as defined below) without further notice or communication to holders of Series E convertible debentures and to complete the Additional Partial Redemptions (as defined below).

On October 2, 2017, Temple redeemed \$2,259 (\$2,202 excluding principal owned by the Company) of the principal amount of the Series E convertible debentures outstanding, which represents 5% of the issued and outstanding Series E convertible debentures (the "Initial Partial Redemption"). Temple has also committed to redeem an additional 5% of the issued and outstanding principal amount of Series E convertible debentures on each of September 30, 2018 and September 30, 2019 (the "Additional Partial Redemptions"). Each of the Initial Partial Redemption and the Additional Partial Redemptions will be for a cash payment equal to the principal amount of such redemption plus accrued and unpaid interest to, but excluding the date of redemption. On October 2, 2017, the convertible debentures, with the exception of \$2,120, the value assigned to the holder's conversion option, have been recorded as debt on the consolidated balance sheets.

On October 1, 2018, the first business day after September 30, 2018, Temple redeemed \$2,258 (\$2,202 excluding principal owned by the Company) of the principal amount of the Series E convertible debentures outstanding.

For the three months ended March 31, 2019, interest on convertible debentures net of accretion of \$4,699 (2018 - \$4,524) 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.

As at March 31, 2019, the Company valued the non-controlling interest in the Morguard Residential REIT Units at \$446,816 (December 31, 2018 - \$417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external unitholders, the Company recorded a fair value loss for the three months ended March 31, 2019 of \$33,801 (2018 - gain of \$28,869) in the consolidated statements of income (Note 19).

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

For the three months ended March 31	2019	2018
Fair value gain (loss) on Morguard Residential REIT Units	(\$29,207)	\$33,328
Distributions to external Unitholders (Note 4)	(4,594)	(4,459)
<b>Fair value gain (loss) on Morguard Residential REIT Units</b>	<b>(\$33,801)</b>	<b>\$28,869</b>

## NOTE 13 LEASE LIABILITIES

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

As at	March 31, 2019	December 31, 2018
Balance, beginning of period	\$9,754	\$8,970
Adoption of IFRS 16 (Note 3)	161,614	—
Principal payments	(490)	—
Dispositions (Note 6)	(684)	—
Foreign exchange gain (loss)	(217)	784
Balance, end of period	<b>\$169,977</b>	\$9,754
Current (Note 14)	\$2,150	\$—
Non-current	167,827	9,754
	<b>\$169,977</b>	<b>\$9,754</b>
Weighted average borrowing rate	5.75%	4.96%

## NOTE 14 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	March 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	\$207,253	\$185,921
Tenant deposits	26,738	26,260
Stock appreciation rights ("SARs") liability	24,149	20,105
Lease liability (Note 13)	2,150	—
Other	4,351	2,630
	<b>\$264,641</b>	<b>\$234,916</b>

## NOTE 15 BANK INDEBTEDNESS

As at March 31, 2019 and December 31, 2018, the Company has operating lines of credit totalling \$364,000, the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at March 31, 2019, the maximum amount that can be borrowed on the operating lines of credit is \$346,623 (December 31, 2018 - \$344,911) which includes deducting issued letters of credit in the amount of \$13,336 (2018 - \$15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at March 31, 2019, the Company had borrowed \$55,193 (December 31, 2018 - \$225,160) on its operating lines of credit.

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

## NOTE 16

### SHAREHOLDERS' EQUITY

#### (a) Share Capital Authorized

Unlimited common shares, no par value.

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

<b>Issued and Fully Paid Common Shares</b>	<b>Number (000s)</b>	<b>Amount</b>
Balance, December 31, 2017	11,842	\$106,952
Common shares repurchased through the Company's NCIB	(515)	(4,655)
Common shares cancelled	(34)	—
Dividend reinvestment plan	1	139
Balance, December 31, 2018	11,294	102,436
Common shares repurchased through the Company's NCIB	(7)	(63)
Dividend reinvestment plan	—	25
<b>Balance, March 31, 2019</b>	<b>11,287</b>	<b>\$102,398</b>

The Company had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 592,415 common shares. The program expired on September 21, 2018. On September 19, 2018, the Company obtained the approval of the TSX under its NCIB to purchase up to 569,854 common shares, being approximately 5% of the issued and outstanding common shares, and the program expires on September 21, 2019. The daily repurchase restriction for the common shares is 1,000. During the three months ended March 31, 2019, 6,971 common shares were purchased for cash consideration of \$1,314 at a weighted average price of \$188.50 per common share.

Total dividends declared during the three months ended March 31, 2019 amounted to \$1,693, or \$0.15 per common share (2018 - \$1,722, or \$0.15 per common share). On May 7, 2019, the Company declared a common share dividend of \$0.15 per common share to be paid in the second quarter of 2019.

#### (b) Contributed Surplus

During the three months ended March 31, 2019, the Company acquired nil Units of Morguard REIT (2018 - 1,119,630 Units) for cash consideration of \$nil (2018 - \$15,774).

The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the three months ended March 31, 2019, amounted to \$nil (2018 - \$12,433) and the amount has been recorded within retained earnings.

During the three months ended March 31, 2019, the Company acquired nil common shares of Temple (2018 - 549,895 common shares) for cash consideration of \$nil (2018 - \$1,457).

During the three months ended March 31, 2019, Temple purchased for cancellation nil common shares (2018 - 99,684 common shares) for cash consideration of \$nil (2018 - \$260), and the amount has been recorded within retained earnings.

The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the three months ended March 31, 2019, amounted to \$nil (2018 - \$1,016) 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 March 31, 2019**

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

During the three months ended March 31, 2019, the Company recorded a fair value adjustment to compensation expense of \$4,044 (2018 - reduction of compensation expense of \$750). The expense is included in property management and corporate expenses in the consolidated statements of income, and the liability is classified as accounts payable and accrued liabilities (Note 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 March 31, 2019: a dividend yield of 0.30% (2018 - 0.35%), expected volatility of approximately 21.45% (2018 - 20.40%) and the 10-year Bank of Canada Bond Yield of 1.54% (2018 - 2.11%).

### (d) Accumulated Other Comprehensive Income

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

As at	March 31, 2019	December 31, 2018
Actuarial gain on defined benefit pension plans	\$49,903	\$42,057
Unrealized foreign currency translation gain	203,765	231,297
	<b>\$253,668</b>	<b>\$273,354</b>

## NOTE 17

### REVENUE

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

For the three months ended March 31	2019	2018
Rental income	\$120,628	\$114,489
Realty taxes and insurance	34,767	30,500
Common area maintenance recoveries	27,508	25,918
Property management and ancillary income	36,937	32,932
	<b>\$219,840</b>	<b>\$203,839</b>

The components of revenue from hotel properties are as follows:

For the three months ended March 31	2019	2018
Room revenue	\$39,538	\$39,296
Other hotel revenue	14,089	14,556
	<b>\$53,627</b>	<b>\$53,852</b>

The components of management and advisory fees are as follows:

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Property and asset management fees	\$9,420	\$10,749
Other fees	2,231	3,688
	<b>\$11,651</b>	<b>\$14,437</b>

## NOTE 18

### INTEREST EXPENSE

The components of interest expense are as follows:

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Interest on mortgages	\$41,433	\$38,952
Interest on Unsecured Debentures (Note 10)	8,020	5,480
Interest on convertible debentures, net of accretion (Note 11)	4,699	4,524
Interest on bank indebtedness	955	1,385
Interest on construction loans	—	393
Interest on loans payable and other	884	247
Interest on lease liabilities	2,422	95
Amortization of mark-to-market adjustments on mortgages, net	(1,476)	(2,150)
Amortization of deferred financing costs	1,818	1,680
Loss on extinguishment of mortgages payable	491	—
	<b>59,246</b>	<b>50,606</b>
Less: Interest capitalized to properties under development	(199)	(555)
	<b>\$59,047</b>	<b>\$50,051</b>

## NOTE 19

### FAIR VALUE GAIN (LOSS), NET

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

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Fair value gain on real estate properties, net	\$48,487	\$65,289
Financial assets (liabilities):		
Fair value gain (loss) on conversion option of MRG convertible debentures	(1,352)	571
Fair value gain (loss) on MRG Units (Note 12)	(33,801)	28,869
Fair value gain on other real estate fund investment (Note 7(b))	5,035	1,166
Fair value gain on investment in marketable securities	2,587	112
Total fair value gain (loss), net	<b>\$20,956</b>	<b>\$96,007</b>

## NOTE 20

### OTHER INCOME (EXPENSE)

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

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
Foreign exchange gain (loss)	(\$1,680)	\$2,367
Gain on sale of hotel property (Note 6)	508	—
Other income (expense)	1,357	(168)
	<b>\$185</b>	<b>\$2,199</b>

**NOTE 21****RELATED PARTY TRANSACTIONS**

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

**(a) Paros Enterprises Limited (“Paros”)**

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

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

**(b) TWC Enterprises Limited (“TWC”)**

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the three months ended March 31, 2019, the Company received a management fee of \$326 (2018 - \$205) and paid rent and operating expenses of \$176 (2018 - \$150).

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 March 31, 2019 was \$39,294 (December 31, 2018 - \$47,809). During the three months ended March 31, 2019, the Company paid net interest of \$403 (2018 - earned net interest of \$75).

**(c) Share/Unit Purchase and Other Loans**

As at March 31, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of \$5,433 (December 31, 2018 - \$5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable in the consolidated balance sheets. As at March 31, 2019, the fair market value of the common shares/Units held as collateral is \$100,629.

**NOTE 22****INCOME TAXES****(a) Tax Provision**

For the three months ended March 31, 2019, the Company recorded an income tax provision of \$8,884 (2018 - \$9,175). The effective tax rate of the current and the prior period was impacted by the tax rate differential. The effective tax rate of the prior period was also impacted by the non-recognition of the benefit of certain deductible temporary difference and the change of estimate of deferred tax liabilities.

**(b) Unrecognized Deductible Temporary Differences**

As at March 31, 2019, the Company's U.S. subsidiaries have total net operating losses of US\$84,488 (December 31, 2018 - US\$84,395) of which no deferred tax assets were recognized in respect of US\$76,726 (December 31, 2018 - US\$76,456) net operating losses as it is not probable that taxable income will be available against which the deductible temporary difference can be utilized. The net operating losses expire in varying years commencing 2030. As at March 31, 2019, the Company's U.S. subsidiaries have US\$7,762 (December 31, 2018 - US\$7,939) net operating losses of which deferred tax assets were recognized. As at March 31, 2019, the Company's U.S. subsidiaries have total of US\$11,726 (December 31, 2018 - US\$13,124) of unutilized interest expense deductions, of which deferred tax assets were recognized.

As at March 31, 2019, the Company's Canadian subsidiaries have total net operating losses of \$198,208 (December 31, 2018 - \$191,263) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which they can be utilized. These losses expire in various years commencing 2022.

As at March 31, 2019, the Company has other Canadian temporary differences of \$24,151 (December 31, 2018 - \$26,360) for which no deferred tax asset was recognized. These other temporary differences have no expiration date.

## NOTE 23

### NET INCOME PER COMMON SHARE

For the three months ended March 31	2019	2018
Net income attributable to common shareholders	\$33,486	\$116,608
Weighted average number of common shares outstanding (000s) - basic and diluted	11,290	11,543
Net income per common share - basic and diluted	<b>\$2.97</b>	\$10.10

## NOTE 24

### CONSOLIDATED STATEMENTS OF CASH FLOWS

#### (a) Items Not Affecting Cash

For the three months ended March 31	2019	2018
Fair value gain on real estate properties, net	(\$20,186)	(\$41,766)
Fair value loss (gain) on conversion option of MRG convertible debentures (Note 19)	1,352	(571)
Fair value loss (gain) on MRG Units (Note 12)	29,207	(33,328)
Fair value gain on other real estate investment funds (Note 19)	(5,035)	(1,166)
Fair value gain on investment in marketable securities (Note 19)	(2,587)	(112)
Equity income from investments	(1,446)	(589)
Amortization of hotel properties	6,772	6,512
Amortization of capital assets and other	2,017	1,624
Amortization of deferred financing costs (Note 18)	1,818	1,680
Amortization of mark-to-market adjustments on mortgages, net (Note 18)	(1,476)	(2,150)
Loss on extinguishment of mortgages payable (Note 18)	491	—
Amortization of tenant incentive	489	203
Stepped rent - adjustment for straight-line method	97	(204)
Deferred income taxes	7,746	7,493
Accretion of convertible debentures	1,811	1,061
Gain on sale of hotel property (Note 20)	(508)	—
	<b>\$20,562</b>	(\$61,313)

#### (b) Net Change in Operating Assets and Liabilities

For the three months ended March 31	2019	2018
Amounts receivable	(\$4,400)	\$3,763
Prepaid expenses and other	(14,924)	(8,772)
Accounts payable and accrued liabilities	(3,118)	7,641
Net change in operating assets and liabilities	<b>(\$22,442)</b>	\$2,632

#### (c) Supplemental Cash Flow Information

For the three months ended March 31	2019	2018
Interest paid	\$52,143	\$42,484
Interest received	1,338	917
Income taxes paid	<b>9,332</b>	6,961

During the three months ended March 31, 2019, the Company issued non-cash dividends under the distribution reinvestment plan of \$25 (2018 - \$37).

#### (d) Reconciliation of Liabilities Arising from Financing Activities

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

	<b>Mortgages payable</b>	<b>Unsecured debentures</b>	<b>Convertible debentures</b>	<b>Lease liabilities</b>	<b>Loans payable</b>	<b>Bank indebtedness</b>	<b>Total</b>
Balance, beginning of period	\$4,362,701	\$597,697	\$227,999	\$9,754	\$60,309	\$225,160	\$5,483,620
Adoption of IFRS 16	—	—	—	161,614	—	—	161,614
Repayments	(27,618)	—	—	(490)	(47,090)	(219,449)	(294,647)
New financing, net	11,016	223,575	—	—	28,000	49,482	312,073
Lump-sum repayments	(34,584)	—	—	—	—	—	(34,584)
Non-cash changes	(26,780)	273	3,570	(684)	—	—	(23,621)
Foreign exchange	(27,323)	—	—	(217)	(1,925)	—	(29,465)
<b>Balance, March 31, 2019</b>	<b>\$4,257,412</b>	<b>\$821,545</b>	<b>\$231,569</b>	<b>\$169,977</b>	<b>\$39,294</b>	<b>\$55,193</b>	<b>\$5,574,990</b>

#### NOTE 25

#### CONTINGENCIES

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

#### NOTE 26

#### MANAGEMENT OF CAPITAL

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

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

<b>As at</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Mortgages payable, principal balance	\$4,264,373	\$4,369,811
Unsecured Debentures, principal balance	825,000	600,000
Convertible debentures, principal balance	235,136	235,136
Loans payable	39,294	60,309
Bank indebtedness	55,193	225,160
Lease liabilities	169,977	9,754
Shareholders' equity	3,442,184	3,431,366
	<b>\$9,031,157</b>	<b>\$8,931,536</b>

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

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

**NOTE 27****FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

**Fair Value of Financial Assets and Financial Liabilities**

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using March 31, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at March 31, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at \$4,365,955 (December 31, 2018 - \$4,428,532), compared with the carrying value of \$4,264,373 (December 31, 2018 - \$4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price (Level 1). As at March 31, 2019, the fair value of the Unsecured Debentures has been estimated at \$837,364 (December 31, 2018 - \$603,624) compared with the carrying value of \$825,000 (December 31, 2018 - \$600,000).

The fair value of the convertible debentures liability is based on their market trading prices (Level 1). As at March 31, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at \$236,547 (December 31, 2018 - \$229,797), compared with the carrying value of \$235,136 (December 31, 2018 - \$235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using March 31, 2019, market rates for debt on similar terms (Level 3). Based on these assumptions, as at March 31, 2019, the fair value of the finance lease receivable has been estimated at \$56,098 (December 31, 2018 - \$55,941).

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

As at	March 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets:</b>						
Real estate properties	\$—	\$—	\$9,746,826	\$—	\$—	\$9,645,596
Investments in real estate funds	—	—	106,889	—	—	103,984
Investment in marketable securities	41,193	—	—	38,606	—	—
<b>Financial liabilities:</b>						
Morguard Residential REIT Units	—	446,816	—	—	417,481	—
Conversion option on MRG convertible debentures	—	3,821	—	—	2,469	—

## NOTE 28

### SEGMENTED INFORMATION

#### (a) Operating Segments

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

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

For the three months ended March 31, 2019	Multi-suite					Total
	Residential	Retail	Office	Industrial	Hotel	
Revenue from real estate/hotel properties	\$91,633	\$64,633	\$60,297	\$3,277	\$53,627	\$273,467
Property/hotel operating expenses	(64,715)	(31,965)	(26,570)	(1,129)	(44,514)	(168,893)
<b>Net operating income</b>	<b>\$26,918</b>	<b>\$32,668</b>	<b>\$33,727</b>	<b>\$2,148</b>	<b>\$9,113</b>	<b>\$104,574</b>

For the three months ended March 31, 2018	Multi-suite					Total
	Residential	Retail	Office	Industrial	Hotel	
Revenue from real estate/hotel properties	\$83,863	\$60,670	\$55,944	\$3,362	\$53,852	\$257,691
Property/hotel operating expenses	(56,141)	(32,884)	(25,055)	(1,096)	(42,770)	(157,946)
<b>Net operating income</b>	<b>\$27,722</b>	<b>\$27,786</b>	<b>\$30,889</b>	<b>\$2,266</b>	<b>\$11,082</b>	<b>\$99,745</b>

As at March 31, 2019	Multi-suite					Total
	Residential	Retail	Office	Industrial	Hotel	
Real estate/hotel properties	\$4,552,673	\$2,776,600	\$2,250,633	\$166,920	\$660,817	\$10,407,643
Mortgages payable	\$1,942,506	\$905,155	\$970,430	\$31,614	\$407,707	\$4,257,412
<b>For the three months ended March 31, 2019</b>						
Additions to real estate/hotel properties	\$6,981	\$6,407	\$6,162	\$172	\$5,857	\$25,579
Fair value gain (loss) on real estate properties	\$45,413	\$11,885	(\$9,478)	\$667	\$—	\$48,487

As at December 31, 2018	Multi-suite					Total
	Residential	Retail	Office	Industrial	Hotel	
Real estate/hotel properties	\$4,586,202	\$2,642,745	\$2,250,514	\$166,135	\$666,078	\$10,311,674
Mortgages payable	\$2,010,392	\$913,478	\$983,750	\$31,826	\$423,255	\$4,362,701
<b>For the three months ended March 31, 2018</b>						
Additions to real estate/hotel properties	\$6,905	\$15,385	\$60,269	\$44,171	\$14,047	\$140,777
Fair value gain (loss) on real estate properties	\$81,275	\$131	(\$15,653)	(\$464)	\$—	\$65,289

#### (b) Regional Segments

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

As at	March 31, 2019	December 31, 2018
<b>Real estate and hotel properties</b>		
Canada	\$7,564,070	\$7,376,407
United States	2,843,573	2,935,267
	<b>\$10,407,643</b>	<b>\$10,311,674</b>

<b>For the three months ended March 31</b>	<b>2019</b>	<b>2018</b>
<b>Revenue from real estate and hotel properties</b>		
Canada	\$209,120	\$201,165
United States	64,347	56,526
	<b>\$273,467</b>	<b>\$257,691</b>

## NOTE 29

### SUBSEQUENT EVENTS

On April 4, 2019, Temple completed a rights offering and issued 25,022,329 common shares at a price of \$1.75 per share for gross proceeds of \$43,789. Morguard acquired 21,045,702 common shares for \$36,830 increasing its ownership in Temple to 71.4%.

On April 8, 2019, Temple fully repaid the 7.25% Series E convertible debentures in the amount of \$40,647.

On April 29, 2019, Temple announced that it has filed a rights offering circular for the subscription of up to 50,044,658 rights and gross proceeds of up to \$37,533. A maximum of 25,022,329 common shares will be issued as each right will entitle the holder thereof to subscribe for one-half of a common share upon payment of the subscription price of \$1.50 per common share.

On April 30, 2019, the Company sold a property located in Harahan, Louisiana, comprising 48 suites, for gross proceeds of \$4,630 (US\$3,440) and the purchaser assumed the mortgage secured by the property in the amount of \$2,860 (US\$2,125).