Morguard

Real Estate Potential. Realized.

MORGUARD REAL ESTATE INVESTMENT TRUST

MARCH 31, 2023

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TABLE OF CONTENTS

BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	March 31, 2023	December 31, 2022
ASSETS			
Non-current assets			
Real estate properties	3	**$2,326,143**	$2,337,805
Right-of-use asset	4	**55**	76
Equity-accounted investment	5	**11,989**	11,658
		2,338,187	2,349,539
Current assets			
Amounts receivable	6	**14,725**	15,736
Prepaid expenses and other		**9,637**	1,200
Cash		**9,472**	9,712
		33,834	26,648
Total assets		**$2,372,021**	$2,376,187
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	8	**$697,846**	$739,503
Convertible debentures	9	**150,357**	149,835
Lease liabilities	10	**16,362**	16,384
Accounts payable and accrued liabilities		**5,477**	5,392
		870,042	911,114
Current liabilities			
Mortgages payable	8	**347,516**	311,999
Lease liabilities	10	**145**	167
Accounts payable and accrued liabilities		**55,005**	46,457
Bank indebtedness	11	**57,431**	55,622
		460,097	414,245
Total liabilities		**1,330,139**	1,325,359
Unitholders' equity		**1,041,882**	1,050,828
		$2,372,021	$2,376,187
Commitments and contingencies	18		

See accompanying notes to the condensed consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Chairman of the Board of Trustees

(Signed) "Bart S. Munn"

Bart S. Munn,
Lead Trustee

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

In thousands of Canadian dollars, except per unit amounts

For the three months ended March 31,	Note	2023	2022
Revenue from real estate properties	12	**$64,816**	$61,326
Property operating costs			
Property operating expenses	13(a)	**(18,611)**	(18,096)
Property taxes		**(12,420)**	(12,614)
Property management fees		**(2,239)**	(2,072)
Net operating income		**31,546**	28,544
Interest expense	14	**(14,709)**	(12,991)
General and administrative	13(b)	**(1,056)**	(1,094)
Amortization expense		**(21)**	(21)
Fair value (losses)/gains on real estate properties	3	**(21,541)**	24,965
Net income from equity-accounted investment	5	**624**	506
Net (loss)/income and comprehensive (loss)/income		**($5,157)**	$39,909
NET (LOSS)/INCOME PER UNIT	16(d)		
Basic		**($0.08)**	$0.62
Diluted		**($0.08)**	$0.44

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF UNITHOLDERS' EQUITY

In thousands of Canadian dollars, except number of units

	Note	Number of Units	Issue of Units	Retained Earnings	Equity Component of Convertible Debentures	Contributed Surplus	Total Unitholders' Equity
Unitholders' equity, January 1, 2022		64,161,097	$635,531	$503,120	$6,879	$6,458	$1,151,988
Net income		—	—	39,909	—	—	39,909
Distributions to unitholders	16(a)	—	—	(3,813)	—	—	(3,813)
Issue of units – DRIP [1]	16(c)	6,145	33	(33)	—	—	—
Unitholders' equity, March 31, 2022		64,167,242	635,564	539,183	6,879	6,458	1,188,084
Net loss		—	—	(126,006)	—	—	(126,006)
Distributions to unitholders	16(a)	—	—	(11,250)	—	—	(11,250)
Issue of units – DRIP [1]	16(c)	59,612	310	(310)	—	—	—
Unitholders' equity, December 31, 2022		64,226,854	635,874	401,617	6,879	6,458	1,050,828
Net loss		**—**	**—**	**(5,157)**	**—**	**—**	**(5,157)**
Distributions to unitholders	16(a)	**—**	**—**	**(3,789)**	**—**	**—**	**(3,789)**
Issue of units – DRIP [1]	16(c)	**11,064**	**60**	**(60)**	**—**	**—**	**—**
Unitholders' equity, March 31, 2023		**64,237,918**	**$635,934**	**$392,611**	**$6,879**	**$6,458**	**$1,041,882**

1. Distribution Reinvestment Plan ("DRIP").

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the three months ended March 31,	Note	2023	2022
OPERATING ACTIVITIES			
Net (loss)/income		**($5,157)**	$39,909
Add/(deduct) items not affecting cash	17(a)	**22,178**	(24,295)
Distributions from equity-accounted investment, net	5	**293**	460
Additions to tenant incentives and leasing commissions		**(671)**	(772)
Net change in non-cash operating assets and liabilities	17(b)	**(73)**	(995)
Cash provided by operating activities		**16,570**	14,307
FINANCING ACTIVITIES			
Proceeds from new mortgages		**41,686**	—
Financing costs on new mortgages		**(199)**	—
Repayment of mortgages			
Repayments on maturity		**(39,186)**	—
Principal instalment repayments		**(8,684)**	(8,950)
Payment of lease liabilities, net		**(44)**	(40)
Proceeds from bank indebtedness, net	11	**1,809**	2,130
Distributions to unitholders		**(2,509)**	(3,495)
Cash used in financing activities		**(7,127)**	(10,355)
INVESTING ACTIVITIES			
Capital expenditures on real estate properties		**(3,038)**	(1,781)
Expenditures on properties under development		**(6,645)**	(1,991)
Cash used in investing activities		**(9,683)**	(3,772)
Net change in cash		**(240)**	180
Cash, beginning of period		**9,712**	11,270
Cash, end of period		**$9,472**	$11,450

See accompanying notes to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2023, and 2022

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

NOTE 1

NATURE AND FORMATION OF THE TRUST

Morguard Real Estate Investment Trust (the "Trust") is a "closed-end" real estate investment trust governed pursuant to an amended and restated declaration of trust dated May 5, 2021 (the "Declaration of Trust"), under, and governed by, the laws of the Province of Ontario. The Trust commenced active operations on October 14, 1997. The Trust units trade on the Toronto Stock Exchange ("TSX") under the symbol "MRT.UN". The Trust owns a diverse portfolio of retail, office and industrial properties located in six Canadian provinces. The Trust's head office is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3.

The Trust has a property management agreement with Morguard Investments Limited ("MIL"), a subsidiary of Morguard Corporation ("Morguard"). Morguard is the parent company of the Trust, owning 63.8% of the outstanding units as at March 31, 2023. Morguard is a real estate company that owns a diversified portfolio of multi-suite residential, retail, hotel, office and industrial properties. Morguard also provides advisory and management services to institutional and other investors.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The condensed consolidated financial statements were approved and authorized for issue by the Trustees on April 26, 2023.

Significant assumptions are used in the assessment of fair value, including estimates of future operating cash flows, the time period over which they will occur, appropriate discount and capitalization rates and stabilized net operating income (which is primarily influenced by revenue growth, vacancy rates, inflation rates and operating costs). These assumptions could change periodically and ultimately impact the underlying valuation of the Trust's real estate properties and equity-accounted investment.

NOTE 3
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at	March 31, 2023	December 31, 2022
Income producing properties	**$2,244,079**	$2,260,657
Properties under development	**29,864**	25,948
Held for development	**52,200**	51,200
	$2,326,143	$2,337,805

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

	Income Producing Properties	Properties Under Development	Held for Development	Total Real Estate Properties
Balance as at December 31, 2021	$2,395,750	$15,401	$40,150	$2,451,301
Additions:				
Capital expenditures/capitalized costs	14,076	14,565	—	28,641
Tenant improvements, tenant incentives and commissions	8,132	—	—	8,132
Transfers	4,018	(4,018)	—	—
Fair value (losses)/gains	(160,027)	—	11,050	(148,977)
Other changes	(1,292)	—	—	(1,292)
Balance as at December 31, 2022	**2,260,657**	**25,948**	**51,200**	**2,337,805**
Additions:				
Capital expenditures/capitalized costs	2,271	6,645	—	8,916
Tenant improvements, tenant incentives and commissions	1,438	—	—	1,438
Transfers	2,729	(2,729)	—	—
Fair value (losses)/gains	(22,541)	—	1,000	(21,541)
Other changes	(475)	—	—	(475)
Balance as at March 31, 2023	**$2,244,079**	**$29,864**	**$52,200**	**$2,326,143**

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

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

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

Using the direct capitalization income approach to corroborate the discounted cash flow method, the properties were valued using capitalization rates in the range of 4.3% to 8.5% applied to a stabilized net operating income (December 31, 2022 – 4.3% to 8.3%), resulting in an overall weighted average capitalization rate of 7.10% (December 31, 2022 – 7.10%).

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

	March 31, 2023					December 31, 2022				
	Stabilized Occupancy		**Capitalization Rates**			Stabilized Occupancy		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Retail	**97.0%**	**90.0%**	**7.8%**	**5.0%**	**7.4%**	97.0%	90.0%	7.8%	5.0%	7.4%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.9%**	100.0%	90.0%	8.3%	4.3%	6.9%
Industrial	**100.0%**	**95.0%**	**5.5%**	**5.3%**	**5.7%**	100.0%	95.0%	5.5%	5.3%	5.6%

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

	March 31, 2023			December 31, 2022		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
RETAIL						
Discount rate	**8.8 %**	**5.8 %**	**7.5 %**	8.8 %	5.8 %	7.5 %
Terminal cap rate	**7.8 %**	**5.0 %**	**6.7 %**	7.8 %	5.0 %	6.7 %
OFFICE						
Discount rate	**9.0 %**	**5.3 %**	**6.5 %**	9.0 %	5.3 %	6.5 %
Terminal cap rate	**8.0 %**	**4.3 %**	**5.7 %**	8.0 %	4.3 %	5.7 %
INDUSTRIAL						
Discount rate	**6.5 %**	**6.0 %**	**6.2 %**	6.5 %	6.0 %	6.2 %
Terminal cap rate	**5.8 %**	**5.5 %**	**5.5 %**	5.8 %	5.5 %	5.5 %

Excluded from the above analysis is a retail property located in British Columbia where the highest and best use is a redevelopment to mixed residential and commercial use. As at March 31, 2023, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent land sales with comparable redevelopment potential.

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in net operating income, with a lower capitalization rate resulting in a greater impact to the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points, the value of the income producing properties as at March 31, 2023, would decrease by $71,436 or increase by $76,675, respectively.

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

For the three months ended March 31, 2023		
Change in capitalization rate	**0.25%**	**(0.25%)**
Retail	**($35,910)**	**$38,428**
Office	**(33,121)**	**35,620**
Industrial	**(2,405)**	**2,627**
	($71,436)	**$76,675**

NOTE 4
RIGHT-OF-USE ASSET

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

As at	**March 31, 2023**	December 31, 2022
Balance, beginning of period	**$76**	$159
Amortization expense	**(21)**	(83)
Balance, end of period	**$55**	$76

NOTE 5
EQUITY-ACCOUNTED INVESTMENT

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

As at	**March 31, 2023**	December 31, 2022
Balance, beginning of period	**$11,658**	$18,578
Equity income/(loss)	**624**	(3,022)
Distributions to partners, net	**(293)**	(3,898)
Balance, end of period	**$11,989**	$11,658

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

As at	**March 31, 2023**	December 31, 2022
Real estate property	**$36,500**	$36,500
Current assets	**792**	998
Total assets	**37,292**	37,498
Non-current liabilities	**(4)**	(4)
Current liabilities	**(25,299)**	(25,836)
Net equity	**$11,989**	$11,658

For the three months ended March 31,	2023	2022
Revenue from real estate property	**$1,383**	$1,346
Property operating expenses	**(633)**	(583)
Net operating income	**750**	763
Interest and other	**(209)**	(221)
Fair value gains/(losses) on real estate property	**83**	(36)
Net income	**$624**	$506

The real estate property included above in the Trust's equity-accounted investment is appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization approach and a direct comparison approach. As at March 31, 2023, the property was valued using a discount rate of 8.3% (December 31, 2022 – 8.3%), a terminal cap rate of 7.5% (December 31, 2022 – 7.5%) and a stabilized cap rate of 7.3% (December 31, 2022 – 7.3%). The stabilized annual net operating income as at March 31, 2023, was $3,172 (December 31, 2022 – $2,954).

NOTE 6
AMOUNTS RECEIVABLE

Amounts receivable consist of the following:

As at	March 31, 2023	December 31, 2022
Tenant receivables	**$7,759**	$5,428
Unbilled other tenant receivables	**3,511**	3,445
Receivables from related parties	**578**	495
Other	**5,325**	8,975
Allowance for expected credit loss	**(2,448)**	(2,607)
	$14,725	$15,736

Allowance for Expected Credit Loss ("ECL")

The Trust records the ECL to comply with the simplified approach for amounts receivable under IFRS 9, "Financial Instruments", where its ECL allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL.

The Trust's ECL includes estimates of the uncertainty of the recoverability of rents related to tenants, of the uncertainty of the recoverability on short-term rent deferrals, of rent reductions provided to tenants related to rents already recognized as a receivable when the tenant made a request for financial assistance and of the uncertainty of the recoverability of all other receivables.

NOTE 7
CO-OWNERSHIP INTERESTS

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

			Trust's Ownership Share	
Jointly Controlled Operations	**Location**	**Property Type**	**2023**	2022
505 Third Street	Calgary, AB	Office	**50%**	50%
Rice Howard Place	Edmonton, AB	Office	**20%**	20%
Prairie Mall	Grande Prairie, AB	Retail	**50%**	50%
Heritage Place	Ottawa, ON	Office	**50%**	50%
Standard Life Centre	Ottawa, ON	Office	**50%**	50%
77 Bloor	Toronto, ON	Office	**50%**	50%
Woodbridge Square	Woodbridge, ON	Retail	**50%**	50%
Place Innovation	Saint-Laurent, QC	Office	**50%**	50%

The following amounts, included in these condensed consolidated financial statements, represent the Trust's proportionate share of the assets and liabilities of its co-ownerships as at March 31, 2023, and December 31, 2022, and the results of operations for the three months ended March 31, 2023, and 2022:

As at	**March 31, 2023**	December 31, 2022
Assets	**$417,713**	$422,749
Liabilities	**$223,146**	$211,805

For the three months ended March 31,	**2023**	2022
Revenue	**$11,739**	$12,351
Expenses	**(8,250)**	(8,189)
Income before fair value adjustments	**3,489**	4,162
Fair value (losses)/gains on real estate properties	**(9,175)**	2,253
Net (loss)/income	**($5,686)**	$6,415

NOTE 8
MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	**March 31, 2023**	December 31, 2022
Mortgages payable before deferred financing costs	**$1,047,517**	$1,053,701
Deferred financing costs	**(2,155)**	(2,199)
Mortgages payable	**$1,045,362**	$1,051,502
Mortgages payable – non-current	**$697,846**	$739,503
Mortgages payable – current	**347,516**	311,999
Mortgages payable	**$1,045,362**	$1,051,502
Range of interest rates	**2.7% to 7.1%**	2.7% to 6.9%
Weighted average fixed interest rate	**3.7%**	3.6%
Weighted average interest rate on all mortgages	**4.3%**	4.2%
Weighted average term to maturity (years)	**3.0**	3.2

The mortgages payable above include floating-rate mortgages. As at March 31, 2023, these mortgages totalled $177,661 (December 31, 2022 – $179,161).

The aggregate principal repayments and balances maturing on the mortgages payable as at March 31, 2023, together with the weighted average contractual rate on debt maturing in the year indicated, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Rate on Balance Maturing
2023 (remainder of year)	$32,269	$234,107	$266,376	4.6 %
2024	23,794	281,502	305,296	5.2 %
2025	17,094	115,653	132,747	3.2 %
2026	10,784	89,117	99,901	3.9 %
2027	8,849	42,485	51,334	4.1 %
Thereafter	33,733	158,130	191,863	3.5 %
	$126,523	**$920,994**	**$1,047,517**	**4.3 %**

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

The Trust has various financial covenants in relation to various outstanding debt instruments and facilities, including debt to asset and debt service coverage ratios. As at March 31, 2023, and December 31, 2022, the Trust was in compliance with those covenants.

NOTE 9
CONVERTIBLE DEBENTURES
Debentures

On December 7, 2021, the Trust issued $159,000 principal amount of 5.25% convertible unsecured subordinated debentures ("Convertible Debentures") maturing on December 31, 2026 (the "Maturity Date"). As at March 31, 2023, Morguard held a total of $60,000 principal amount of the Convertible Debentures (December 31, 2022 – $60,000).

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

The Convertible Debentures, with the exception of the value assigned to the holders' conversion option, have been recorded as debt on the balance sheets. The following table summarizes the allocation of the principal amount and related issue costs of the Convertible Debentures at the date of original issue. The portion of issue costs attributable to the liability of $4,026 was capitalized and will be amortized over the term to maturity, while the remaining amount of $187 was charged to equity.

	Liability	Equity	Principal Amount Issued
Transaction date – December 7, 2021	$151,934	$7,066	$159,000
Issue costs	(4,026)	(187)	(4,213)
	$147,908	**$6,879**	**$154,787**

Each Convertible Debenture is convertible into freely tradable units of the Trust at the option of the holder, exercisable at any time prior to the close of business on the last business day preceding the Maturity Date at a conversion price of $7.80 per unit, being a rate of approximately 128.2 units per thousand principal amount of Convertible Debentures, subject to adjustment.

The Convertible Debentures payable consist of the following:

As at	March 31, 2023	December 31, 2022
Convertible debentures – liability	**$151,934**	$151,934
Convertible debentures – accretion	**1,560**	1,228
Convertible debentures before issue costs	**153,494**	153,162
Issue costs	**(3,137)**	(3,327)
Convertible debentures	**$150,357**	$149,835

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

	Interest	Principal	Total
2023	$8,348	$—	$8,348
2024	8,348	—	8,348
2025	8,348	—	8,348
2026	8,348	159,000	167,348
	$33,392	**$159,000**	**$192,392**

Redemption Rights

Each Convertible Debenture is redeemable any time from January 1, 2025, to the close of business on December 31, 2025, in whole or in part, on at least 30 days' prior notice at a redemption price equal to par plus accrued and unpaid interest at the Trust's sole option, provided that the weighted average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which the notice of redemption is given is not less than 125% of the conversion price.

From January 1, 2026, to the close of business on December 31, 2026, the Convertible Debentures are redeemable, in whole or in part, at par plus accrued and unpaid interest at the Trust's sole option.

Payment Upon Redemption or Maturity

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

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

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

As at	March 31, 2023	December 31, 2022
Balance, beginning of period	**$16,551**	$16,718
Lease payments	**(301)**	(1,203)
Interest	**257**	1,036
Balance, end of period	**$16,507**	$16,551
Current	**$145**	$167
Non-current	**16,362**	16,384
	$16,507	$16,551
Weighted average borrowing rate	**6.2 %**	6.2 %

NOTE 11
BANK INDEBTEDNESS
The Trust has operating lines of credit totalling $108,000 (December 31, 2022 – $108,000), which renew annually and are secured by fixed charges on specific properties owned by the Trust. One of these lines is subject to cash flow tests based on the operating results of the secured properties along with prevailing bond yields. As at March 31, 2023, there is a maximum of $93,700 available (December 31, 2022 – $93,700).

As at March 31, 2023, the Trust had borrowed $57,431 (December 31, 2022 – $55,622) on its credit facilities and issued letters of credit in the amount of $1,090 (December 31, 2022 – $1,090) related to these facilities. The net availability remaining on the Trust's credit facilities is $35,179 (December 31, 2022 – $36,988).

The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at March 31, 2023, and December 31, 2022, the Trust was in compliance with all covenants and undertakings. As the bank indebtedness is current and at prevailing market rates, the carrying value of the debt as at March 31, 2023, approximates fair value.

NOTE 12
REVENUE FROM REAL ESTATE PROPERTIES

Revenue from real estate properties consists of the following:

For the three months ended March 31, 2023	Retail	Office	Industrial	Total
Rental revenue	**$21,981**	**$15,636**	**$492**	**$38,109**
CAM recoveries	**5,379**	**7,246**	**215**	**12,840**
Property tax and insurance recoveries	**8,308**	**3,683**	**139**	**12,130**
Other revenue and lease cancellation fees	**548**	**366**	**—**	**914**
Parking revenue	**—**	**1,298**	**—**	**1,298**
Amortized rents	**(156)**	**(346)**	**27**	**(475)**
	$36,060	**$27,883**	**$873**	**$64,816**

For the three months ended March 31, 2022	Retail	Office	Industrial	Total
Rental revenue	$21,474	$15,555	$545	$37,574
CAM recoveries	4,981	6,857	272	12,110
Property tax and insurance recoveries	5,604	4,036	158	9,798
Other revenue and lease cancellation fees	642	582	59	1,283
Parking revenue	1	1,007	—	1,008
Amortized rents	14	(463)	2	(447)
	$32,716	$27,574	$1,036	$61,326

Common area maintenance ("CAM") recoveries and other revenue and lease cancellation fees noted in the above table are considered to be a component of revenue from contracts with customers.

NOTE 13
EXPENSES

(a) Property Operating Expenses

Property operating expenses consist of the following:

For the three months ended March 31,	2023	2022
Repairs and maintenance	**$7,969**	$7,759
Utilities	**5,305**	4,657
Bad debt expense	**117**	638
Other operating expenses	**5,220**	5,042
	$18,611	$18,096

(b) General and Administrative

General and administrative expenses consist of the following:

For the three months ended March 31,	2023	2022
Trustees' fees and expenses	**$66**	$60
Professional and compliance fees	**331**	376
Payroll and other administrative expenses	**659**	658
	$1,056	$1,094

NOTE 14
INTEREST EXPENSE

The components of interest expense are as follows:

For the three months ended March 31,	2023	2022
Mortgages payable	**$11,014**	$10,004
Amortization of deferred financing costs – mortgages	**243**	217
Convertible debentures	**2,058**	2,058
Accretion on convertible debentures, net	**332**	311
Amortization of deferred financing costs – convertible debentures	**190**	180
Lease liabilities	**257**	260
Bank indebtedness	**894**	35
Capitalized interest	**(279)**	(74)
	$14,709	$12,991

NOTE 15
RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

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

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

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

For the three months ended March 31,	2023	2022
Property management fees [1]	**$2,263**	$2,097
Appraisal/valuation fees	**85**	81
Information services	**55**	55
Leasing fees	**435**	484
Project administration fees	**139**	34
Project management fees	**2**	—
Risk management fees	**81**	78
Internal audit fees	**30**	31
Off-site administrative charges	**506**	476
Rental revenue	**(48)**	(50)
	$3,548	$3,286

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

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

As at	March 31, 2023	December 31, 2022
Amounts payable to MIL, net	**$786**	$1,293

(b) Revolving Loan with Morguard

The Trust has a revolving loan agreement with Morguard that provides for borrowings or advances of up to $75,000 (December 31, 2022 – $75,000), which is interest-bearing at the lender's borrowing rate and due on demand subject to available funds.

Morguard Loan Payable

During the three months ended March 31, 2023, there were no advances or repayments. As at March 31, 2023, and December 31, 2022, there was no loan payable to Morguard. For the three months ended March 31, 2023, and 2022, the Trust incurred no interest expense.

Morguard Loan Receivable

During the three months ended March 31, 2023, there were no advances or repayments. As at March 31, 2023 and December 31, 2022, there was no loan receivable from Morguard. For the three months ended March 31, 2023, and 2022, the Trust did not earn interest income on loans receivable from Morguard. The interest income earned from Morguard is included with other income on the statements of (loss)/income and comprehensive (loss)/income.

(c) Sublease with Morguard (Excluding MIL)

The Trust subleases office space from Morguard. For the three months ended March 31, 2023, the Trust incurred rent expense in the amount of $56 (2022 – $48).

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

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

As at	March 31, 2023	December 31, 2022
Amounts receivable	**$63**	$125
Accounts payable and accrued liabilities	**$42**	$—

(e) Rental Revenue from Morguard (Excluding MIL)

Morguard is a tenant in one of the Trust's properties. For the three months ended March 31, 2023, the Trust earned rental revenue in the amount of $29 (2022 – $29).

NOTE 16
UNITHOLDERS' EQUITY
(a) Units Outstanding

The Trust is authorized to issue an unlimited number of units. These units have no par value. The following table summarizes the changes in units from January 1, 2022 to March 31, 2023:

	Three months ended March 31, 2023	Year ended December 31, 2022
Balance, beginning of period	**64,226,854**	64,161,097
Distribution Reinvestment Plan	**11,064**	65,757
Balance, end of period	**64,237,918**	64,226,854

Total distributions recorded during the three months ended March 31, 2023, amounted to $3,849 or $0.06 per unit (2022 – $3,846 or $0.06 per unit). On March 15, 2023, the Trust declared a distribution in the amount of $0.02 per unit for the month of March 2023, payable on April 14, 2023.

(b) Normal Course Issuer Bid

On February 7, 2023, the Trust announced that the TSX had accepted notice filed by the Trust of its intention to make a normal course issuer bid. The notice provided that during the 12-month period commencing February 9, 2023, and ending February 8, 2024, the Trust may purchase for cancellation on the TSX up to 3,211,342 units in total, being approximately 5% of the outstanding units. Additionally, the Trust may purchase for cancellation up to $9,800 principal amount of the Convertible Debentures due on the Maturity Date, 10% of the public float of outstanding Convertible Debentures. The price that the Trust would pay for any such units or debentures would be the market price at the time of acquisition.

During the three months ended March 31, 2023, and 2022, the Trust did not purchase any units or debentures for cancellation.

(c) Distribution Reinvestment Plan

Under the Trust's DRIP, unitholders can elect to reinvest cash distributions into additional units at a weighted average trading price of the units on the TSX for the 20 trading days immediately preceding the applicable date of distribution. During the three months ended March 31, 2023, the Trust issued 11,064 units under the DRIP (2022 – 6,145 units).

(d) Net (Loss)/Income Per Unit

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

For the three months ended March 31,	2023	2022
Net (loss)/income – basic	**($5,157)**	$39,909
Net (loss)/income – diluted	**($5,157)**	$42,458
Weighted average number of units outstanding – basic	**64,231**	64,163
Weighted average number of units outstanding – diluted	**64,231**	96,496
Net (loss)/income per unit – basic	**($0.08)**	$0.62
Net (loss)/income per unit – diluted	**($0.08)**	$0.44

To calculate net (loss)/income – diluted, interest, accretion and the amortization of financing costs on convertible debentures outstanding that were expensed during the period are added back to net (loss)/income – basic. The weighted average number of units outstanding – diluted is calculated as if all convertible debentures outstanding as at March 31, 2023, and 2022, had been converted into units of the Trust at the beginning of the year. The calculation of net (loss)/income per unit – diluted excludes the impact of the convertible debentures for the three months ended March 31, 2023 as their inclusion would be anti-dilutive.

NOTE 17

STATEMENTS OF CASH FLOWS

(a) Items Not Affecting Cash

For the three months ended March 31,	2023	2022
Fair value losses/(gains) on real estate properties	**$21,541**	($24,965)
Net income from equity-accounted investment	**(624)**	(506)
Amortized stepped rent	**272**	394
Amortized free rent	**143**	(62)
Amortization of deferred financing costs – mortgages	**243**	217
Amortization of tenant incentives	**60**	115
Amortization of right-of-use asset	**21**	21
Amortization of deferred financing costs – convertible debentures	**190**	180
Accretion on convertible debentures	**332**	311
	$22,178	($24,295)

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

For the three months ended March 31,	2023	2022
Amounts receivable	**$1,011**	$2,142
Prepaid expenses and other	**(8,437)**	(9,250)
Accounts payable and accrued liabilities	**7,353**	6,113
	($73)	($995)

Other supplemental cash flow information consists of the following:		
Interest paid	**$11,069**	$10,242
Issue of units – DRIP	**$60**	$33

NOTE 18

COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Trust has entered into various agreements relating to capital expenditures for its properties. These expenditures include development of new space, redevelopment or retrofit of existing space, and other capital expenditures. Should all conditions be met, as at March 31, 2023, committed capital expenditures in the next 12 months are estimated at $3,641.

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

(b) Contingencies

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

NOTE 19
MANAGEMENT OF CAPITAL

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

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

The total managed capital for the Trust is summarized below:

As at	Note	March 31, 2023	December 31, 2022
Mortgages payable	8	**$1,045,362**	$1,051,502
Convertible debentures	9	**150,357**	149,835
Bank indebtedness	11	**57,431**	55,622
Lease liabilities	10	**16,507**	16,551
Cash		**(9,472)**	(9,712)
Unitholders' equity		**1,041,882**	1,050,828
		$2,302,067	$2,314,626

The Declaration of Trust permits the Trust to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of all indebtedness of the Trust is not more than 65% of the gross book value of the Trust's total assets as defined in the Declaration of Trust. The Declaration of Trust also permits the Trust to incur floating-rate debt, provided that the total amount of all floating-rate debt of the Trust is not more than 15% of the gross book value of the Trust's total assets.

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

As at	Borrowing Limits	March 31, 2023	December 31, 2022
Fixed-rate debt to gross book value of total assets	N/A	**43.6 %**	43.7 %
Floating-rate debt to gross book value of total assets	15 %	**9.9 %**	9.9 %
	65 %	**53.5 %**	53.6 %

As at March 31, 2023, the Trust met all externally imposed ratios and minimum equity requirements.

Mortgages Payable

The Trust has mortgages payable that include financial covenants such as coverage and leverage ratios, on a property and consolidated basis, as defined in the respective agreements. These ratios are evaluated by the Trust on an ongoing basis to ensure compliance. The Trust was in compliance with each of the financial covenants as at March 31, 2023, and December 31, 2022.

Convertible Debentures

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

Bank Indebtedness

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

NOTE 20
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Assets and Liabilities

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

(a) Mortgages Payable

Mortgages payable are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Trust as at March 31, 2023.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using March 31, 2023, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at March 31, 2023, of the mortgages payable has been estimated at $1,010,369 (December 31, 2022 – $1,007,073) compared with the carrying value before deferred financing costs of $1,047,517 (December 31, 2022 – $1,053,701). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

(b) Convertible Debentures

The fair value of the Convertible Debentures is based on their market trading price (TSX: MRT.DB.A) (Level 1). The fair value as at March 31, 2023, of the Convertible Debentures has been estimated at $154,230 (December 31, 2022 – $147,870) compared with the carrying value before deferred financing costs of $153,494 (December 31, 2022 – $153,162).

(c) Fair Value Hierarchy of Real Estate Properties

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

	March 31, 2023			December 31, 2022		
As at	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
ASSETS						
Income producing properties	**$—**	**$—**	**$2,244,079**	$—	$—	$2,260,657
Properties under development	**$—**	**$—**	**$29,864**	$—	$—	$25,948
Held for development	**$—**	**$—**	**$52,200**	$—	$—	$51,200

Risks Associated with Financial Assets and Liabilities

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

NOTE 21

SEGMENTED INFORMATION

IFRS 8, "Operating Segments", requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and assessing its performance. The Trust has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics. As at March 31, 2023, the Trust has the following three reportable segments: retail, office and industrial.

Business Segments

For the three months ended March 31, 2023	**Retail**	**Office**	**Industrial**	**Total**
Revenue from real estate properties	**$36,060**	**$27,883**	**$873**	**$64,816**
Property operating expenses	**(9,604)**	**(8,761)**	**(246)**	**(18,611)**
Property taxes	**(7,926)**	**(4,332)**	**(162)**	**(12,420)**
Property management fees	**(1,310)**	**(899)**	**(30)**	**(2,239)**
Net operating income	**$17,220**	**$13,891**	**$435**	**$31,546**

For the three months ended March 31, 2022	Retail	Office	Industrial	Total
Revenue from real estate properties	$32,716	$27,574	$1,036	$61,326
Property operating expenses	(9,911)	(7,943)	(242)	(18,096)
Property taxes	(7,937)	(4,526)	(151)	(12,614)
Property management fees	(1,151)	(887)	(34)	(2,072)
Net operating income	$13,717	$14,218	$609	$28,544

	Retail	**Office**	**Industrial**	**Total**
As at March 31, 2023				
Real estate properties	**$1,291,923**	**$969,220**	**$65,000**	**$2,326,143**
Mortgages payable (based on collateral)	**$566,547**	**$478,815**	**$—**	**$1,045,362**
For the three months ended March 31, 2023				
Additions to real estate properties	**$7,992**	**$1,448**	**$914**	**$10,354**
Fair value gains/(losses) on real estate properties	**$2,411**	**($24,461)**	**$509**	**($21,541)**

	Retail	Office	Industrial	Total
As at December 31, 2022				
Real estate properties	$1,281,675	$992,580	$63,550	$2,337,805
Mortgages payable (based on collateral)	$578,749	$472,753	$—	$1,051,502
For the three months ended March 31, 2022				
Additions to real estate properties	$2,601	$1,932	$11	$4,544
Fair value gains on real estate properties	$6,481	$10,697	$7,787	$24,965