Real Estate Potential. Realized.

MORGUARD REAL ESTATE INVESTMENT TRUST

DECEMBER 31, 2019

CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S REPORT TO UNITHOLDERS

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

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

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

The Audit Committee of the Board of Trustees (the "Trustees") of the Trust, consisting solely of independent directors, has reviewed the consolidated financial statements, the report to unitholders of the external auditors, Ernst & Young LLP, and the management's discussion and analysis with management and recommended its approval to the Trustees. The Trustees have approved the consolidated financial statements.

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

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Chief Executive Officer

(Signed) "Andrew Tamlin"

Andrew Tamlin,
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF MORGUARD REAL ESTATE INVESTMENT TRUST

OPINION

We have audited the consolidated financial statements of Morguard Real Estate Investment Trust (the "Trust") , which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income and comprehensive income, consolidated statements of unitholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

OTHER INFORMATION

Management is responsible for the other information, which comprises:

- Management's Discussion and Analysis; and
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

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

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

"Ernst & Young LLP"

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
February 13, 2020

BALANCE SHEETS

In thousands of Canadian dollars

As at December 31,	Note	2019	2018
ASSETS			
Non-current assets			
Real estate properties	4	**$2,892,103**	$2,915,592
Right-of-use asset	5	**324**	—
Equity-accounted investment	6	**23,705**	24,746
		2,916,132	2,940,338
Current assets			
Amounts receivable		**14,314**	17,016
Morguard loan receivable	15(b)	**—**	10,000
Prepaid expenses and other		**1,112**	567
Cash		**5,783**	10,652
		21,209	38,235
Total assets		**$2,937,341**	$2,978,573
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	8	**$902,708**	$913,490
Convertible debentures	9	**170,753**	168,814
Lease liabilities	10	**10,993**	—
Accounts payable and accrued liabilities		**4,550**	4,282
		1,089,004	1,086,586
Current liabilities			
Mortgages payable	8	**165,640**	194,104
Lease liabilities	10	**123**	—
Accounts payable and accrued liabilities		**47,448**	49,809
Morguard loan payable	15(b)	**32,500**	—
Bank indebtedness	11	**65,158**	67,660
		310,869	311,573
Total liabilities		**1,399,873**	1,398,159
Unitholders' equity		**1,537,468**	1,580,414
		$2,937,341	$2,978,573
Commitments and contingencies	19		

See accompanying notes to the consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Chairman of the Board of Trustees

(Signed) "Bart S. Munn"

Bart S. Munn,
Trustee

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per unit amounts

For the year ended December 31,	Note	2019	2018
Revenue from real estate properties	12	**$273,074**	$276,473
Property operating costs			
Property operating expenses	13(a)	**(66,800)**	(64,137)
Property taxes		**(47,266)**	(51,083)
Property management fees		**(9,047)**	(9,175)
		149,961	152,078
Interest expense	14	**(58,006)**	(55,648)
General and administrative	13(b)	**(4,271)**	(4,781)
Amortization expense		**(83)**	—
Other income		**45**	106
Fair value losses on real estate properties	4	**(73,850)**	(18,602)
Net income/(loss) from equity-accounted investment	6	**1,044**	(138)
Net income and comprehensive income		**$14,840**	$73,015
NET INCOME PER UNIT	16(d)		
Basic		**$0.24**	$1.20
Diluted		**$0.24**	$1.12

See accompanying notes to the consolidated financial statements.

STATEMENTS OF UNITHOLDERS' EQUITY

In thousands of Canadian dollars, except number of units

	Number of Units	Issue of Units	Retained Earnings	Equity Component of Convertible Debentures	Contributed Surplus	Total Unitholders' Equity
Unitholders' equity, January 1, 2018	60,691,729	$612,063	$947,070	$4,594	$1,864	$1,565,591
CHANGES DURING THE YEAR:						
Repurchase of units	(37,100)	(375)	(36)	—	—	(411)
Net income	—	—	73,015	—	—	73,015
Distributions to unitholders	—	—	(57,781)	—	—	(57,781)
Issue of units – DRIP [1]	39,424	495	(495)	—	—	—
Unitholders' equity, December 31, 2018	60,694,053	612,183	961,773	4,594	1,864	1,580,414
CHANGES DURING THE YEAR:						
Net income	**—**	**—**	**14,840**	**—**	**—**	**14,840**
Distributions to unitholders	**—**	**—**	**(57,786)**	**—**	**—**	**(57,786)**
Issue of units – DRIP [1]	**41,486**	**497**	**(497)**	**—**	**—**	**—**
Unitholders' equity, December 31, 2019	**60,735,539**	**$612,680**	**$918,330**	**$4,594**	**$1,864**	**$1,537,468**

1. Distribution Reinvestment Plan ("DRIP").

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

For the year ended December 31,	Note	2019	2018
OPERATING ACTIVITIES			
Net income		**$14,840**	$73,015
Add items not affecting cash	17(a)	**76,324**	20,910
Distributions from equity-accounted investment, net	6	**2,085**	2,196
Additions to tenant incentives and leasing commissions		**(3,955)**	(2,452)
Net change in non-cash operating assets and liabilities	17(b)	**64**	(195)
Cash provided by operating activities		**89,358**	93,474
FINANCING ACTIVITIES			
Proceeds from new mortgages		**140,892**	118,241
Financing costs on new mortgages		**(667)**	(685)
Repayment of mortgages			
Repayments on maturity		**(145,892)**	(54,584)
Principal instalment repayments		**(34,237)**	(36,333)
Payment of lease liabilities, net		**(116)**	—
(Repayment of)/proceeds from bank indebtedness, net	11	**(2,502)**	49,799
Increase in Morguard loan receivable	15(b)	**—**	(10,000)
Decrease in Morguard loan receivable	15(b)	**10,000**	—
Proceeds from Morguard loan payable	15(b)	**63,500**	42,500
Repayment of Morguard loan payable	15(b)	**(31,000)**	(77,500)
Distributions to unitholders		**(57,786)**	(57,781)
Units repurchased for cancellation		**—**	(411)
Cash used in financing activities		**(57,808)**	(26,754)
INVESTING ACTIVITIES			
Capital expenditures on real estate properties		**(18,515)**	(20,932)
Expenditures on properties under development		**(33,818)**	(49,888)
Proceeds from sale of real estate properties, net		**15,914**	—
Cash used in investing activities		**(36,419)**	(70,820)
Net change in cash		**(4,869)**	(4,100)
Cash, beginning of period		**10,652**	14,752
Cash, end of period		**$5,783**	$10,652

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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

NOTE 1

NATURE AND FORMATION OF THE TRUST

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

The Trust has a property management agreement with Morguard Investments Limited ("MIL"), a subsidiary of Morguard Corporation ("Morguard"). Morguard is the parent company of the Trust, owning 58.48% of the outstanding units as at December 31, 2019. 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 consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved and authorized for issue by the Trustees on February 13, 2020.

Basis of Presentation

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

Basis of Consolidation

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

Real Estate Properties

Income Producing Properties

Income producing properties include retail, office and industrial properties held to earn rental income and for capital appreciation.

Income producing properties, where not acquired in a business combination, are measured initially at cost including transaction costs. Transaction costs include transfer taxes and professional fees for legal and other services.

Subsequent to initial recognition, income producing properties are recorded at fair value, determined based on available market evidence, at the balance sheet date. The changes in fair value during each reporting period are recorded in the statements of income and comprehensive income. In order to avoid double counting, the carrying value of income producing properties includes straight-line rent receivable, tenant improvements, tenant incentives and direct leasing costs since these amounts are incorporated in the appraised values of real estate properties.

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

Tenant incentives are inducements given to prospective tenants to move into the Trust's properties or to existing tenants to extend the lease term. Tenant incentive receivables are included in the carrying value of real estate properties and are deducted from rental revenue on a straight-line basis over the term of the tenant's lease.

Properties Under Development

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

Properties under development are measured at fair value, with changes in fair value being recognized in the statements of income and comprehensive income.

Assets Held for Sale

Real estate properties held for sale are assets that the Trust intends to sell rather than hold on a long-term basis and meet the criteria established in IFRS 5, "Non-Current Assets Held For Sale and Discontinued Operations", for separate classification. Non-current assets and groups of assets and liabilities that comprise disposal groups are categorized as assets held for sale where the asset or disposal group is available for immediate sale in its present condition and the sale is highly probable.

Interests in Joint Arrangements

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with remaining maturities at the time of acquisition of three months or less. There are no cash equivalents on hand as at December 31, 2019, or 2018. Bank borrowings are considered to be financing activities.

Provisions

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

Revenue Recognition

Revenue from income producing properties includes rents from tenants under leases, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income paid by the tenants under the terms of their existing leases.

Rental revenue, including percentage participation rents, lease cancellation fees and leasing concessions, and property tax and insurance recoveries, are considered lease components within the scope of IFRS 16, "Leases" ("IFRS 16"). Percentage participation rents are accrued based on sales estimates submitted by tenants if the tenant anticipates attaining the minimum sales level stipulated in the tenant lease. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Trust expects to be entitled in exchange for those goods or services. The Trust has not transferred substantially all of the risks and benefits of ownership of its income producing properties and therefore accounts for leases with its tenants as operating leases. Revenue is recognized as performance obligations are satisfied over the term of the lease.

Revenue from real estate properties recorded in the statements of income and comprehensive income during free rent periods represents future cash receipts and is reflected in the balance sheets in the carrying value of real estate properties and recognized in the statements of income and comprehensive income on a straight-line basis over the initial term of the lease. The Trust accounts for stepped rents on a straight-line basis, which are reflected in the balance sheets in the carrying value of real estate properties, and recognized in the statements of income and comprehensive income over the initial term of the lease.

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

Comprehensive Income

Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") refers to items recognized in comprehensive income that are excluded from net income. Accordingly, the Trust prepares statements of comprehensive income and includes accumulated other comprehensive income as a component of the unitholders' equity within the balance sheets.

Per Unit Calculation

Basic net income per unit is calculated by dividing net income by the weighted average number of units outstanding for the year. The dilutive effect of the convertible debentures is determined by considering both the holders' option to convert these debentures into units and the issuer's option to redeem these debentures by issuing units. The diluted net income per unit calculation considers both of these options and discloses the more dilutive of the two options.

Reportable Operating Segments

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

Financial Instruments

Recognition and Measurement of Financial Instruments

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

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

	Classification and Measurement
FINANCIAL ASSETS	
Amounts receivable	Amortized cost
Loan receivable	Amortized cost
Cash	Amortized cost
FINANCIAL LIABILITIES	
Mortgages payable	Amortized cost
Convertible debentures (excluding equity component)	Amortized cost
Loan payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Bank indebtedness	Amortized cost

Derivatives and Embedded Derivatives

All derivative instruments, including embedded derivatives, are recorded in the balance sheets at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent of hedge effectiveness. Financial guarantees are recorded at their inception date fair value and reversed as the Trust is relieved of its guarantee obligations.

Hedges

Derivative financial instruments are utilized to reduce interest rate risk on the Trust's debt. Interest rate swap agreements are used to manage the fixed and floating interest rate mix of the Trust's total debt portfolio and related overall cost of borrowing. Such instruments are designated, and are effective, as hedges of certain of the Trust's interest rate risk exposures. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. The net receipt or payment of interest will be recorded as an adjustment to interest expense in each period.

Gains and losses on termination of interest rate swap agreements that were designated, and were effective, as hedges of certain interest rate risk exposures are included in accumulated other comprehensive income and are amortized in interest expense over the remaining term of the original contract life of the terminated swap agreement. Interest expense on the related debt obligation together with this amortization reflects the overall costs of such borrowing.

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

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

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

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

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

Critical Judgments in Applying Accounting Policies
The following are the critical judgments that have been made in applying the Trust's accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

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

Leases
The Trust makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the Trust is the lessee, are operating or finance leases. The Trust has determined that all of its tenant leases and long-term ground leases are operating leases.

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

In determining estimates of fair market value for its real estate assets, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

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

The Trust adopted the standard on January 1, 2019 using a modified retrospective approach. The Trust 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 at the date of initial application. The Trust 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 Trust reviewed all lease contracts in which it is a lessee, and has noted that there was a material impact in relation to a land lease and office lease and, as such, the impact is noted below; the remainder of leases are considered immaterial.

Leases previously accounted for as operating leases
The Trust 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 Trust 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 of $10,825 and right-of-use assets of $407, respectively, and their corresponding lease liabilities of $11,232, having a weighted average incremental borrowing rate of 6.3%.

Summary of new accounting policies that have been applied from the date of initial application
At the commencement date of a lease, the Trust 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 amortization expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset, are recognized separately.

Right-of-use assets, not meeting the definition of investment property, are subsequently measured at cost, less any accumulated amortization and impairment losses, and adjusted for any re-measurement 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 Trust is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are amortized 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 Trust 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 Trust and payments of penalties for terminating a lease, if the lease term reflects the Trust 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 Trust uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

NOTE 4
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at December 31,	2019	2018
Income producing properties	**$2,834,394**	$2,858,255
Properties under development	**18,909**	22,887
Held for development	**38,800**	34,450
	$2,892,103	$2,915,592

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, 2017	$2,817,236	$13,630	$30,950	$2,861,816
Additions:				
Capital expenditures/capitalized costs	13,990	49,888	—	63,878
Tenant improvements, tenant incentives and commissions	9,394	—	—	9,394
Transfers	40,631	(40,631)	—	—
Disposition	(1,252)	—	—	(1,252)
Fair value (losses)/gains	(22,102)	—	3,500	(18,602)
Other changes	358	—	—	358
Balance as at December 31, 2018	**2,858,255**	**22,887**	**34,450**	**2,915,592**
Adoption of IFRS 16 (Note 3)	10,825	—	—	10,825
Additions:				
Capital expenditures/capitalized costs	12,928	33,818	—	46,746
Tenant improvements, tenant incentives and commissions	9,542	—	—	9,542
Transfers	37,796	(37,796)	—	—
Disposition	(15,914)	—	—	(15,914)
Fair value (losses)/gains	(78,200)	—	4,350	(73,850)
Other changes	(838)	—	—	(838)
Balance as at December 31, 2019	**$2,834,394**	**$18,909**	**$38,800**	**$2,892,103**

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 (2018 – 4.3% to 7.5%), resulting in an overall weighted average capitalization rate of 6.4% (2018 – 6.1%). The total stabilized annual net operating income as at December 31, 2019, was $171,345 (2018 – $167,197).

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

	December 31, 2019					December 31, 2018				
	Stabilized Occupancy		**Capitalization Rates**			Stabilized Occupancy		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Retail	**100.0%**	**90.0%**	**7.3%**	**5.3%**	**6.5%**	100.0%	90.0%	7.3%	5.3%	6.2%
Office	**100.0%**	**90.0%**	**8.5%**	**4.3%**	**6.3%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**5.5%**	**5.3%**	**5.4%**	100.0%	95.0%	7.5%	5.5%	6.5%

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

	December 31, 2019			December 31, 2018		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
RETAIL						
Discount rate	**7.8%**	**6.0%**	**6.9%**	7.8%	6.0%	6.8%
Terminal cap rate	**7.0%**	**5.3%**	**6.0%**	7.0%	5.3%	6.0%
OFFICE						
Discount rate	**7.8%**	**5.3%**	**6.3%**	7.8%	5.3%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.5%**	7.3%	4.3%	5.5%
INDUSTRIAL						
Discount rate	**6.5%**	**6.0%**	**6.2%**	7.3%	6.3%	6.8%
Terminal cap rate	**5.8%**	**5.5%**	**5.5%**	6.8%	5.8%	6.2%

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 December 31, 2019, 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 December 31, 2019, would decrease by $101,411 or increase by $109,698, respectively.

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

For the year ended	December 31, 2019		December 31, 2018	
Change in capitalization rate	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Retail	**($55,273)**	**$59,707**	($59,193)	$64,201
Office	**(44,420)**	**48,106**	(46,491)	50,516
Industrial	**(1,718)**	**1,885**	(1,955)	2,112
	($101,411)	**$109,698**	($107,639)	$116,829

Dispositions
On July 31, 2019, the Trust sold an industrial property located at 825 Des Érables, Quebec, for gross proceeds of $16,125.

NOTE 5
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 December 31,	2019
Balance as at December 31, 2018	**$—**
Adoption of IFRS 16 (Note 3)	**407**
Amortization expense	**(83)**
Balance as at December 31, 2019	**$324**

NOTE 6
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 December 31,	2019	2018
Balance, beginning of period	**$24,746**	$27,080
Equity income/(loss)	**1,044**	(138)
Distributions to partners	**(2,755)**	(2,196)
Contributions from partners	**670**	—
Balance, end of period	**$23,705**	$24,746

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 December 31,	2019	2018
Real estate property	**$49,405**	$51,550
Current assets	**651**	930
Total assets	**50,056**	52,480
Non-current liabilities	**(7)**	(25,331)
Current liabilities	**(26,344)**	(2,403)
Net equity	**$23,705**	$24,746

For the year ended December 31,	2019	2018
Revenue from real estate property	**$6,393**	$6,372
Property operating expenses	**(2,112)**	(2,096)
Net operating income	**4,281**	4,276
Interest and other	**(1,000)**	(1,039)
Fair value losses on real estate property	**(2,237)**	(3,375)
Net income/(loss)	**$1,044**	($138)

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 December 31, 2019, the property was valued using a discount rate of 7.3% (2018 – 7.3%), a terminal cap rate of 6.3% (2018 – 6.3%) and a stabilized cap rate of 6.0% (2018 – 6.0%). The stabilized annual net operating income as at December 31, 2019, was $3,096 (2018 – $2,964).

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 consolidated financial statements.

			Trust's Ownership Share	
Jointly Controlled Operations	Location	Property Type	2019	2018
505 Third Street	Calgary, AB	Office	**50%**	50%
Scotia Place	Edmonton, AB	Office	**20%**	20%
Prairie Mall	Grande Prairie, AB	Retail	**50%**	50%
Heritage Place	Ottawa, ON	Office	**50%**	50%
Standard Life Centre	Ottawa, ON	Office	**50%**	50%
77 Bloor	Toronto, ON	Office	**50%**	50%
Woodbridge Square	Woodbridge, ON	Retail	**50%**	50%
Place Innovation	Saint-Laurent, QC	Office	**50%**	50%
REAL ESTATE PROPERTIES SOLD (SEE NOTE 4)				
825 Des Érables	Salaberry-de-Valleyfield, QC	Industrial	**50%**	50%

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

As at December 31,	2019	2018
Assets	**$520,359**	$535,568
Liabilities	**$164,901**	$176,442

For the year ended December 31,	2019	2018
Revenue	**$52,612**	$52,831
Expenses	**(32,370)**	(32,102)
Income before fair value adjustments	**20,242**	20,729
Fair value (losses)/gains on real estate properties	**(1,091)**	3,340
Net income	**$19,151**	$24,069

NOTE 8
MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at December 31,	2019	2018
Mortgages payable before deferred financing costs	**$1,070,838**	$1,110,075
Deferred financing costs	**(2,490)**	(2,481)
Mortgages payable	**$1,068,348**	$1,107,594
Mortgages payable – non-current	**$902,708**	$913,490
Mortgages payable – current	**165,640**	194,104
Mortgages payable	**$1,068,348**	$1,107,594
Range of interest rates	**2.7% to 5.5%**	2.7% to 5.5%
Weighted average term to maturity (years)	**3.7**	4.1

The aggregate principal repayments and balances maturing on the mortgages payable as at December 31, 2019, together with the weighted average contractual rate on debt maturing in the year indicated, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Rate on Balance Maturing
2020	$35,932	$130,409	$166,341	4.5%
2021	30,414	153,525	183,939	4.2%
2022	26,989	171,560	198,549	3.8%
2023	16,821	208,194	225,015	3.7%
2024	8,557	136,860	145,417	4.4%
Thereafter	35,793	115,784	151,577	4.0%
	$154,506	**$916,332**	**$1,070,838**	**4.1%**

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

NOTE 9
CONVERTIBLE DEBENTURES

Debentures

On December 30, 2016, the Trust issued a $175,000 principal amount of 4.50% convertible unsecured subordinated debentures ("Convertible Debentures") maturing on December 31, 2021 (the "Maturity Date"). As at December 31, 2019, Morguard held a total of $60,000 principal amount of the Convertible Debentures (2018 – $60,000).

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

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

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

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

The Convertible Debentures payable consist of the following:

As at December 31,	2019	2018
Convertible debentures – liability	**$170,267**	$170,267
Convertible debentures – accretion	**2,666**	1,722
Convertible debentures before issue costs	**172,933**	171,989
Issue costs	**(2,180)**	(3,175)
Convertible debentures	**$170,753**	$168,814

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

	Interest	Principal	Total
2020	$7,875	$—	$7,875
2021	7,875	175,000	182,875
	$15,750	**$175,000**	**$190,750**

Redemption Rights

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

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

Repayment Options

Payment Upon Redemption or 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 December 31,	2019
Balance as at December 31, 2018	**$—**
Adoption of IFRS 16 (Note 3)	**11,232**
Lease payments	**(813)**
Interest	**697**
Balance as at December 31, 2019	**$11,116**

Current	**$123**
Non-current	**10,993**
	$11,116

Weighted average borrowing rate	**6.3%**

As at December 31,	2019
Not later than 1 year	**$813**
Later than 1 year and not later than 5 years	**3,858**
Later than 5 years	**27,965**
Total minimum lease payments	**32,636**
Less: future interest costs	**(21,520)**
Present value of minimum lease payments	**$11,116**

NOTE 11
BANK INDEBTEDNESS

The Trust has operating lines of credit totalling $95,000 (2018 – $85,000), which renew annually and are secured by fixed charges on specific properties owned by the Trust.

As at December 31, 2019, the Trust had borrowed $65,158 (2018 – $67,660) on its credit facilities and issued letters of credit in the amount of $1,267 (2018 – $1,309) related to these facilities.

The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at December 31, 2019, and 2018, 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 December 31, 2019, approximates fair value.

NOTE 12
REVENUE FROM REAL ESTATE PROPERTIES

Revenue from real estate properties consists of the following:

For the year ended December 31, 2019	Retail	Office	Industrial	Total
Rental revenue	**$93,624**	**$72,588**	**$2,771**	**$168,983**
CAM recoveries	**25,723**	**31,536**	**827**	**58,086**
Property tax and insurance recoveries	**24,239**	**16,747**	**736**	**41,722**
Other ancillary revenue	**4,258**	**745**	**118**	**5,121**
Amortized rents	**296**	**(1,010)**	**(124)**	**(838)**
	$148,140	**$120,606**	**$4,328**	**$273,074**

For the year ended December 31, 2018	Retail	Office	Industrial	Total
Rental revenue	$91,849	$72,557	$3,264	$167,670
CAM recoveries	26,271	31,156	856	58,283
Property tax and insurance recoveries	24,743	19,178	798	44,719
Other ancillary revenue	4,149	1,170	124	5,443
Amortized rents	321	98	(61)	358
	$147,333	$124,159	$4,981	$276,473

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

NOTE 13
EXPENSES

(a) Property Operating Expenses

Property operating expenses consist of the following:

For the year ended December 31,	2019	2018
Repairs and maintenance	**$29,564**	$28,208
Utilities	**16,111**	16,163
Other operating expenses	**21,125**	19,766
	$66,800	$64,137

(b) General and Administrative

General and administrative expenses consist of the following:

For the year ended December 31,	2019	2018
Trustees' fees and expenses	**$281**	$325
Professional and compliance fees	**1,434**	1,494
Other administrative expenses	**2,556**	2,962
	$4,271	$4,781

NOTE 14

INTEREST EXPENSE

The components of interest expense are as follows:

For the year ended December 31,	2019	2018
Mortgages payable	**$43,864**	$43,774
Amortization of deferred financing costs – mortgages	**658**	697
Convertible debentures	**7,875**	7,875
Accretion on convertible debentures, net	**944**	891
Amortization of deferred financing costs – convertible debentures	**995**	940
Lease liabilities	**697**	—
Bank indebtedness	**2,154**	1,502
Morguard loan payable and other	**1,382**	981
Capitalized interest	**(563)**	(1,012)
	$58,006	$55,648

NOTE 15

RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

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

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

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

For the year ended December 31,	2019	2018
Property management fees [1]	**$9,157**	$9,298
Appraisal/valuation fees	**357**	359
Information services	**220**	220
Leasing fees	**2,947**	2,111
Project administration fees	**816**	1,011
Project management fees	**434**	600
Risk management fees	**360**	301
Internal audit fees	**140**	129
Off-site administrative charges	**1,781**	1,825
Rental revenue	**(200)**	(206)
	$16,012	$15,648

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

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

As at December 31,	2019	2018
Accounts payable and accrued liabilities, net	**$1,527**	$1,227

(b) Revolving Loan with Morguard

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

Morguard Loan Payable

During the year ended December 31, 2019, a gross amount of $63,500 was advanced from Morguard, and a gross amount of $31,000 was repaid to Morguard. As at December 31, 2019, $32,500 remains payable to Morguard (2018 – $nil). For the year ended December 31, 2019, the Trust incurred interest expense in the amount of $1,277 (2018 – $981) at an average interest rate of 4.68% (2018 – 3.85%).

Morguard Loan Receivable

During the year ended December 31, 2019, a gross amount of $10,000 was repaid from Morguard. As at December 31, 2019, there is no loan receivable from Morguard (December 31, 2018 – $10,000). For the year ended December 31, 2019, the Trust earned interest income on loans receivable from Morguard in the amount of $33 (2018 – $35), at an average interest rate of 5.05% (2018 – 5.05%). The interest income earned from Morguard is included with other income on the statements of income and comprehensive income.

(c) Sublease with Morguard (Excluding MIL)

The Trust subleases office space from Morguard. For the year ended December 31, 2019, the Trust incurred rent expense in the amount of $215 (2018 – $202).

(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 December 31,	2019	2018
Amounts receivable	**$63**	$65
Accounts payable and accrued liabilities	**$124**	$7

(e) Rental Revenue from Morguard (Excluding MIL)

Morguard is a tenant in one of the Trust's properties. For the year ended December 31, 2019, the Trust earned rental revenue in the amount of $110 (2018 – $105).

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, 2018 to December 31, 2019:

As at December 31,	2019	2018
Balance, beginning of period	**60,694,053**	60,691,729
Distribution Reinvestment Plan	**41,486**	39,424
Repurchase of units	**—**	(37,100)
Balance, end of period	**60,735,539**	60,694,053

Total distributions recorded during the year ended December 31, 2019, amounted to $58,283 or $0.96 per unit (2018 – $58,276 or $0.96 per unit). On January 15, 2020, the Trust declared a distribution in the amount of $0.08 per unit for the month of January 2020, payable to unitholders on February 14, 2020.

(b) Normal Course Issuer Bid

On February 5, 2019, the Trust announced that the TSX had accepted notice filed by the Trust of its intention to make a normal course issuer bid. The notice provided that during the 12-month period commencing February 7, 2019, and ending February 6, 2020, the Trust may purchase for cancellation on the TSX up to 3,034,702 units in total, being approximately 5% of the outstanding units. Additionally, the Trust may purchase for cancellation up to $11,500 principal amount of the Convertible Debentures due on the Maturity Date, 10% of the public float of outstanding Convertible Debentures. The price that the Trust would pay for any such units or debentures would be the market price at the time of acquisition.

During the year ended December 31, 2018, the Trust purchased 37,100 units for cancellation. During the year ended December 31, 2019, the Trust did not purchase any units for cancellation.

(c) Distribution Reinvestment Plan

Under the Trust's Distribution Reinvestment Plan, unitholders can elect to reinvest cash distributions into additional units at a weighted average trading price of the units on the TSX for the 20 trading days immediately preceding the applicable date of distribution. During the year ended December 31, 2019, the Trust issued 41,486 units under the DRIP (2018 – 39,424 units).

(d) Net Income Per Unit

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

For the year ended December 31,	2019	2018
Net income – basic	**$14,840**	$73,015
Net income – diluted	**$14,840**	$82,721
Weighted average number of units outstanding – basic	**60,711**	60,705
Weighted average number of units outstanding – diluted	**60,711**	74,086
Net income per unit – basic	**$0.24**	$1.20
Net income per unit – diluted	**$0.24**	$1.12

To calculate net income – diluted, interest, accretion and the amortization of financing costs on convertible debentures outstanding that were expensed during the year are added back to net income – basic. The weighted average number of units outstanding – diluted is calculated as if all convertible debentures outstanding as at December 31, 2019, and 2018, had been converted into units of the Trust at the beginning of the year. The calculation of net income per unit – diluted excludes the impact of the convertible debentures for the year ended December 31, 2019, as their inclusion would be anti-dilutive.

NOTE 17
STATEMENTS OF CASH FLOWS
(a) Items Not Affecting Cash

For the year ended December 31,	2019	2018
Fair value losses on real estate properties	**$73,850**	$18,602
Net (income)/loss from equity-accounted investment	**(1,044)**	138
Amortized stepped rent	**99**	(670)
Amortized free rent	**372**	(18)
Amortization of deferred financing costs – mortgages	**658**	697
Amortization of tenant incentives	**367**	330
Amortization of right-of-use asset	**83**	—
Amortization of deferred financing costs – convertible debentures	**995**	940
Accretion on convertible debentures	**944**	891
	$76,324	$20,910

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

For the year ended December 31,	2019	2018
Amounts receivable	**$2,702**	$837
Prepaid expenses and other	**(545)**	275
Accounts payable and accrued liabilities	**(2,093)**	(1,307)
	$64	($195)

Other supplemental cash flow information consists of the following:		
Interest paid	**$56,136**	$53,981
Issue of units – DRIP	**$497**	$495

NOTE 18
INCOME TAXES
The Trust is a mutual fund trust pursuant to the *Income Tax Act* (Canada) (the "Act"). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow-Through ("SIFT") Trust pursuant to the Act is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. The Trust intends to qualify as a mutual fund trust that is not a SIFT Trust and to make distributions not less than the amount necessary to ensure that the Trust will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in these consolidated financial statements.

NOTE 19
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 December 31, 2019, committed capital expenditures in the next 12 months are estimated at $34,200.

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

The Trust is committed to making the following annual payments under a ground lease to the year 2065 for the land upon which one of its properties is situated:

March 1, 2011 to February 28, 2021	$714
March 1, 2021 to February 28, 2065	Fair market value of land in February 2021 multiplied by 8.5% per annum

Effective November 17, 2013, the Trust entered into an operating sublease agreement with Morguard expiring on November 15, 2023. The annual rent amounts to an expense of approximately $215.

In addition to the above-mentioned contractual obligations, the Trust has entered into equipment operating leases with terms ranging to 2024. The remaining payments for the leases are as follows:

2020	$71
2021	42
2022	40
2023	24
2024	9

(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 20
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 December 31,	Note	2019	2018
Mortgages payable	8	**$1,068,348**	$1,107,594
Convertible debentures	9	**170,753**	168,814
Bank indebtedness	11	**65,158**	67,660
Morguard loan payable	15(b)	**32,500**	—
Lease liabilities	10	**11,116**	—
Cash		**(5,783)**	(10,652)
Morguard loan receivable	15(b)	**—**	(10,000)
Unitholders' equity		**1,537,468**	1,580,414
		$2,879,560	$2,903,830

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

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

As at December 31,	Borrowing Limits	2019	2018
Fixed-rate debt to gross book value of total assets	N/A	**42.5%**	42.8%
Floating-rate debt to gross book value of total assets	15%	**3.3%**	2.3%
	60%	**45.8%**	45.1%

As at December 31, 2019, the Trust met all externally imposed ratios and minimum equity requirements.

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

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

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

NOTE 21
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 December 31, 2019.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2019, of the mortgages payable has been estimated at $1,093,438 (2018 – $1,126,796) compared with the carrying value before deferred financing costs of $1,070,838 (2018 – $1,110,075). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

(b) Convertible Debentures
The fair value of the Convertible Debentures is based on their market trading price (TSX: MRT.DB) (Level 1). The fair value as at December 31, 2019, of the Convertible Debentures has been estimated at $177,188 (2018 – $168,000) compared with the carrying value before deferred financing costs of $172,933 (2018 – $171,989).

(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:

	December 31, 2019			December 31, 2018		
As at	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Income producing properties	**$—**	**$—**	**$2,834,394**	$—	$—	$2,858,255
Properties under development	**$—**	**$—**	**$18,909**	$—	$—	$22,887
Held for development	**$—**	**$—**	**$38,800**	$—	$—	$34,450

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.

Market Risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, comprises the following:

(i) Interest Rate Risk

The Trust is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. Interest on the Trust's bank indebtedness is subject to floating interest rates. The Trust mitigates these risks by its continued efforts to enhance the value of its real estate properties, to maintain high occupancy levels to meet its debt obligations and to foster excellent relations with its lenders. For the year ended December 31, 2019, the average increase or decrease in net income for each 1% change in interest rates paid on floating debt amounts to $808 (2018 – $611).

The Trust's objective in managing interest rate risk is to minimize the volatility of the Trust's earnings. As at December 31, 2019, interest rate risk has been minimized because all long-term debt is financed at fixed interest rates with maturities scheduled over a number of years.

(ii) Credit Risk

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

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

Future minimum annual rental receipts on non-cancellable tenant operating leases are as follows:

As at December 31,	2019	2018
Not later than 1 year	**$151,362**	$154,666
Later than 1 year and not later than 5 years	**435,026**	461,508
Later than 5 years	**248,131**	276,707
	$834,519	$892,881

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

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

The following table sets forth details of amounts receivable and related allowance for doubtful accounts:

As at December 31,	2019	2018
AMOUNTS RECEIVABLE:		
Trade receivables	**$14,868**	$17,289
Less: Allowance for doubtful accounts	**(554)**	(273)
Trade receivables, net	**14,314**	17,016
Loan receivable	**—**	10,000
Total amounts receivable, net	**$14,314**	$27,016

(iii) Liquidity Risk
Liquidity risk is the risk that the Trust will encounter difficulties in meeting its financial obligations. The Trust will be subject to the risks associated with debt financing, including the risk that mortgages, convertible debentures and credit facilities will not be able to be refinanced. The Trust's objectives in minimizing liquidity risk are to maintain appropriate levels of leverage of its real estate assets and to stagger its debt maturity profile. As at December 31, 2019, the Trust's liquidity is described as follows:

As at December 31,	2019	2018
Availability of bank lines of credit	**$95,000**	$85,000
Availability of parent loan payable	**50,000**	50,000
Letters of credit outstanding	**(1,267)**	(1,309)
Bank indebtedness outstanding	**(65,158)**	(67,660)
Morguard loan payable outstanding	**(32,500)**	—
Morguard loan receivable outstanding	**—**	10,000
Cash	**5,783**	10,652
	$51,858	$86,683

NOTE 22
SEGMENTED INFORMATION

IFRS 8, "Operating Segments", requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision-makers for the purpose of allocating resources to the segment and assessing its performance. The Trust has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics. As at December 31, 2019, the Trust has the following three reportable segments: retail, office and industrial.

Business Segments

For the year ended December 31, 2019	Retail	Office	Industrial	Total
Revenue from real estate properties	**$148,140**	**$120,606**	**$4,328**	**$273,074**
Property operating expenses	**(35,413)**	**(30,565)**	**(822)**	**(66,800)**
Property taxes	**(28,988)**	**(17,553)**	**(725)**	**(47,266)**
Property management fees	**(5,136)**	**(3,787)**	**(124)**	**(9,047)**
	$78,603	**$68,701**	**$2,657**	**$149,961**

For the year ended December 31, 2018	Retail	Office	Industrial	Total
Revenue from real estate properties	$147,333	$124,159	$4,981	$276,473
Property operating expenses	(33,617)	(29,463)	(1,057)	(64,137)
Property taxes	(29,910)	(20,321)	(852)	(51,083)
Property management fees	(5,068)	(3,964)	(143)	(9,175)
	$78,738	$70,411	$2,929	$152,078

	Retail	Office	Industrial	Total
As at December 31, 2019				
Real estate properties	**$1,671,653**	**$1,177,220**	**$43,230**	**$2,892,103**
Mortgages payable (based on collateral)	**$612,078**	**$456,270**	**$—**	**$1,068,348**
For the year ended December 31, 2019				
Additions to real estate properties	**$42,798**	**$12,975**	**$515**	**$56,288**
Fair value (losses)/gains on real estate properties	**($57,497)**	**($18,705)**	**$2,352**	**($73,850)**

	Retail	Office	Industrial	Total
As at December 31, 2018				
Real estate properties	$1,675,231	$1,183,961	$56,400	$2,915,592
Mortgages payable (based on collateral)	$629,923	$477,671	$—	$1,107,594
For the year ended December 31, 2018				
Additions to real estate properties	$59,848	$12,876	$548	$73,272
Fair value (losses)/gains on real estate properties	($46,477)	$23,664	$4,211	($18,602)

NOTE 23
SUBSEQUENT EVENTS

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