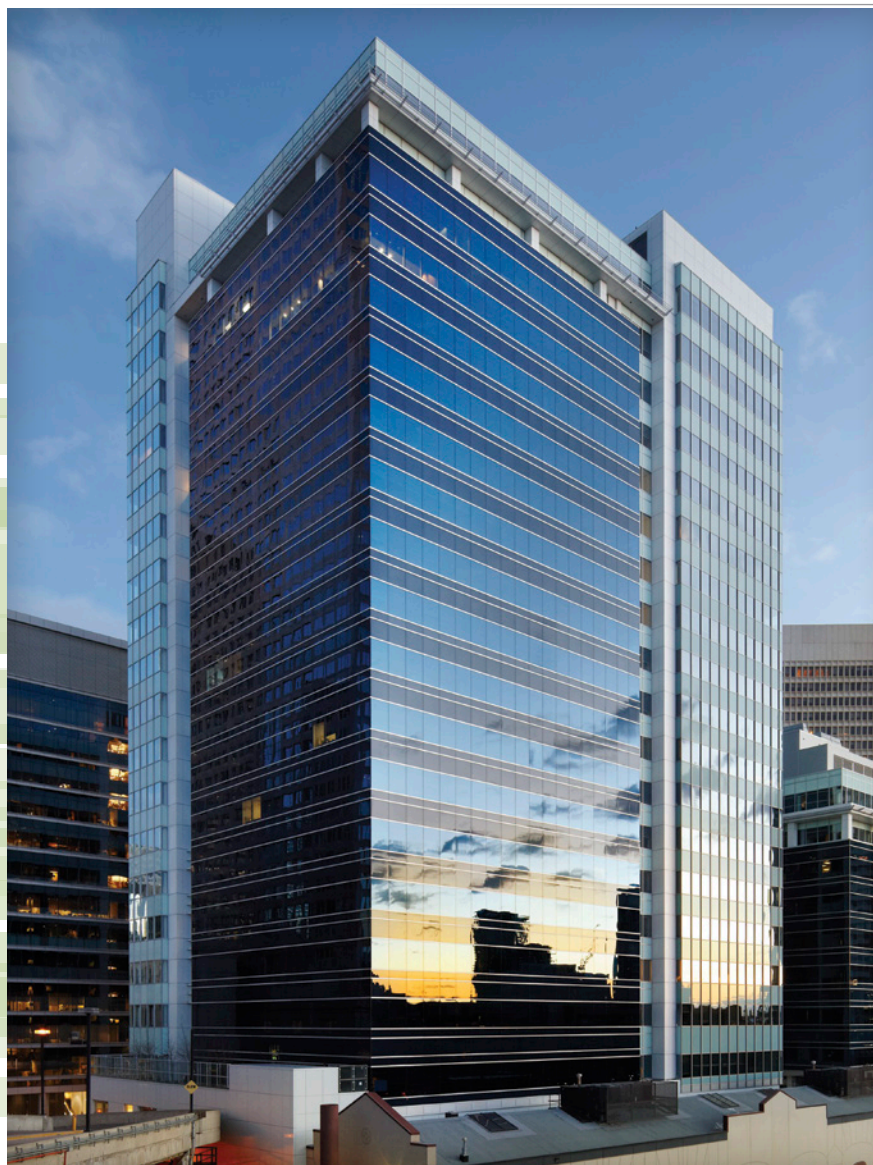


MORGUARD REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



THIRD QUARTER 2019

TAKING ACTION.
FINDING OPPORTUNITY.

Morguard

SUMMARY OF OPERATIONS

In thousands of dollars, except per-unit amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue from real estate properties	\$66,363	\$67,273	\$203,825	\$204,547
Net operating income	36,387	37,200	111,204	111,708
Fair value losses on real estate properties	(14,928)	(16,867)	(45,210)	(802)
Net income	6,254	4,981	18,468	66,023
Funds from operations	21,721	22,859	66,806	69,234
Adjusted funds from operations ¹	15,796	16,473	48,493	49,854
Amounts presented on a per unit basis				
Net income – basic	\$0.10	\$0.08	\$0.30	\$1.09
Net income – diluted	\$0.10	\$0.08	\$0.30	\$0.99
Funds from operations – basic	\$0.36	\$0.38	\$1.10	\$1.14
Funds from operations – diluted	\$0.34	\$0.35	\$1.05	\$1.08
Adjusted funds from operations – basic ¹	\$0.26	\$0.27	\$0.80	\$0.82
Adjusted funds from operations – diluted ¹	\$0.26	\$0.26	\$0.78	\$0.80
Cash distributions per unit	\$0.24	\$0.24	\$0.72	\$0.72
Payout ratio – Adjusted funds from operations	92.3%	88.9%	90.0%	87.8%
Weighted average number of units (in thousands)				
Basic	60,715	60,713	60,705	60,703
Diluted	69,294	69,291	69,284	69,282

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

SUMMARY OF FINANCIAL POSITION

As at	September 30, 2019	December 31, 2018	September 30, 2018
Total assets (thousands of dollars)	\$2,955,425	\$2,978,573	\$2,982,860
Total gross debt (thousands of dollars)	1,347,772	1,349,724	1,338,492
Total equity (thousands of dollars)	1,555,501	1,580,414	1,588,258
Gross leasable area as at quarter-end (in thousands of square feet) ¹			
Retail	4,752	4,629	4,641
Office	3,240	3,240	3,240
Industrial	292	534	534
Total	8,284	8,403	8,415
Occupancy as at quarter-end (%) ²			
Retail	94.6%	94.7%	94.0%
Office	91.7%	92.9%	93.2%
Industrial	90.3%	91.7%	97.7%
Total	93.3%	93.8%	94.0%

1. Excludes equity-accounted investment.

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

PART I

BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") for Morguard Real Estate Investment Trust (the "Trust"), should be read in conjunction with the Trust's condensed consolidated financial statements and the accompanying notes for the three months and nine months ended September 30, 2019, and 2018.

The Trust's condensed consolidated financial statements and the accompanying notes for the three months and nine months ended September 30, 2019, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These condensed consolidated financial statements include the accounts of the Trust and other entities that the Trust controls and are reported in thousands of Canadian dollars, except where otherwise noted.

The information in this MD&A is current to October 30, 2019.

FORWARD-LOOKING DISCLAIMER

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

FINANCIAL MEASURES

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

NET OPERATING INCOME ("NOI")

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

NET OPERATING INCOME – SAME ASSETS

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

FUNDS FROM OPERATIONS ("FFO")

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

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

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

ADJUSTED CASH FLOW FROM OPERATIONS ("ACFO")

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

PROPORTIONATE SHARE BASIS

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

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

ADDITIONAL INFORMATION

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

REVIEW AND APPROVAL BY THE BOARD OF TRUSTEES

The Board of Trustees ("the Trustees"), upon the recommendation of its Audit Committee, approved the contents of this MD&A on October 30, 2019.

PART II

BUSINESS OVERVIEW AND STRATEGY

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

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

Morguard Corporation ("Morguard") is the parent company of the Trust, owning 58.13% of the outstanding units as at September 30, 2019. Morguard is a real estate company that owns a diversified portfolio of multi-unit residential, retail, hotel, office and industrial properties in both Canada and the United States.

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

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

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

The Trust's long-term debt strategy involves the use of conventional property-specific secured mortgages or bonds, unsecured convertible debentures and secured floating-rate bank financing. The Trust currently targets a capital structure with an overall indebtedness ratio of not more than 50% of gross assets. Through its Declaration of Trust, the Trust has the ability to increase its overall indebtedness ratio to 60%.

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

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

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

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

PORTFOLIO OVERVIEW

The risk and reliability characteristics of real estate asset classes are different, and delivering on the primary business goal requires a mix of assets that balance risk and rewards. As at September 30, 2019, the Trust owned a diversified real estate portfolio of 48 retail, office and industrial properties consisting of approximately 8.4 million square feet of gross leasable area ("GLA") located in the provinces of British Columbia ("BC"), Alberta, Saskatchewan, Manitoba, Ontario and Quebec. Included in this portfolio are three properties that the Trust has deemed as held for development, and one office property, consisting of 0.2 million square feet of GLA, located in the province of Alberta, which is accounted for using the equity method.

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

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

Industrial: The Trust has an interest in four industrial properties located in Ontario and Quebec. On July 31, 2019, the Trust sold its 50% interest in a single-tenant industrial property, located at 825 Des Erables, in Quebec.

PORTFOLIO COMPOSITION BY ASSET TYPE AND LOCATION

Location	Retail		Office		Industrial		Total		%
	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	
British Columbia	2	540	3	600	—	—	5	1,140	14%
Alberta	5	824	9	1,169	—	—	14	1,993	24%
Saskatchewan	1	488	—	—	—	—	1	488	6%
Manitoba	3	660	—	—	—	—	3	660	8%
Ontario	8	2,163	8	980	4	292	20	3,435	43%
Quebec	—	—	1	448	—	—	1	448	5%
	19	4,675	21	3,197	4	292	44	8,164	100%
IPP held for development	2	77	1	43	—	—	3	120	
Income producing properties	21	4,752	22	3,240	4	292	47	8,284	
Equity-accounted investment	—	—	1	152	—	—	1	152	
Grand Total	21	4,752	23	3,392	4	292	48	8,436	
% ¹		57%		39%		4%		100%	

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

ENCLOSED REGIONAL CENTRES OVERVIEW

At September 30, 2019, the Trust's enclosed regional centres portfolio totalled 3.4 million square feet of GLA, which comprises a 100% interest in six regional centres totalling 3.3 million square feet and a 50% interest in one additional centre totalling 0.1 million square feet. Included in the above 3.4 million square feet of GLA is 0.4 million square feet of area either held for, or under, development.

COMMUNITY STRIP CENTRES OVERVIEW

At September 30, 2019, the Trust's community strip centres portfolio totalled 1.3 million square feet of GLA, comprising a 100% interest in 13 such properties totalling 1.2 million square feet, as well as a 50% interest in one additional property totalling 0.1 million square feet. Included in the above 1.3 million square feet of GLA is 0.1 million square feet of area either held for, or under, development.

SINGLE-/DUAL-TENANT BUILDINGS OVERVIEW

At September 30, 2019, the Trust's single-/dual-tenant buildings portfolio totalled 2.4 million square feet of GLA, which comprises a 100% interest in nine properties totalling 1.5 million square feet and a 50% interest in four properties totalling 0.9 million square feet. Included in the above 2.4 million square feet of GLA is 0.2 million square feet of area relating to the Trust's equity accounted investment, and area either held for, or under, development.

MULTI-TENANT BUILDINGS OVERVIEW

At September 30, 2019, the Trust's multi-tenant buildings portfolio totalled 1.0 million square feet of GLA, which comprises a 100% interest in six properties totalling 0.6 million square feet, a 50% interest in three properties totalling 0.3 million square feet and a 20% interest in one property totalling 0.1 million square feet.

INDUSTRIAL OVERVIEW

At September 30, 2019, the Trust's industrial portfolio totalled 0.3 million square feet of GLA, and includes 100% interest in four industrial properties comprising 0.3 million square feet.

PART III

TRUST PERFORMANCE

The table below sets forth selected financial data relating to the Trust's fiscal three and nine months ended September 30, 2019, and 2018. This financial data is derived from the Trust's condensed consolidated statements which are prepared in accordance with IFRS.

SELECTED FINANCIAL INFORMATION

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Revenue from real estate properties	\$66,363	\$67,273	(1.4%)	\$203,825	\$204,547	(0.4%)
Property operating expenses	(15,735)	(14,681)	7.2%	(49,253)	(46,856)	5.1%
Property taxes	(12,025)	(13,174)	(8.7%)	(36,688)	(39,236)	(6.5%)
Property management fees	(2,216)	(2,218)	(0.1%)	(6,680)	(6,747)	(1.0%)
Net operating income	36,387	37,200	(2.2%)	111,204	111,708	(0.5%)
Interest expense	(14,533)	(13,983)	3.9%	(43,604)	(41,426)	5.3%
General and administrative	(911)	(1,048)	(13.1%)	(3,234)	(3,523)	(8.2%)
Other items	(18)	(96)	(81.3%)	(16)	25	(164.0%)
Fair value losses on real estate properties	(14,928)	(16,867)	(11.5%)	(45,210)	(802)	5,537.2%
Net income/(loss) from equity-accounted investment	257	(225)	(214.2%)	(672)	41	(1,739.0%)
Net income	\$6,254	\$4,981	25.6%	\$18,468	\$66,023	(72.0%)
Net income per unit – basic	\$0.10	\$0.08	25.0%	\$0.30	\$1.09	(72.5%)
Funds from operations per unit – basic	\$0.36	\$0.38	(5.3%)	\$1.10	\$1.14	(3.5%)
Adjusted funds from operations per unit – basic	\$0.26	\$0.27	(3.7%)	\$0.80	\$0.82	(2.4%)

CONSOLIDATED OPERATING HIGHLIGHTS FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2019

Revenue from real estate properties includes contracted rent from tenants along with recoveries of property expenses. Revenue for the three months ended September 30, 2019, decreased 1.4% to \$66.4 million from \$67.3 million for the same period in 2018. This decrease is primarily due to reduced recoveries of property taxes for the Trust's properties in Calgary resulting from reductions processed by the city.

Property operating expenses for the three months ended September 30, 2019, increased 7.2% to \$15.7 million from \$14.7 million for the same period in 2018. This increase is primarily due to expenses related to new GLA from the completion of development projects in the Trust's enclosed regional centres.

Interest expense for the three months ended September 30, 2019, increased 3.9% to \$14.5 million from \$14.0 million for the same period in 2018 due to \$0.2 million in interest expense incurred on lease liabilities from the new IFRS 16 "Leases" guidance, as well as higher short-term variable rates on a year-over-year basis.

The Trust records its income producing properties at fair value in accordance with IFRS. In accordance with this policy, the following fair value adjustments by segment have been recorded:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Retail	(\$4,513)	(\$7,476)	(\$34,764)	(\$6,661)
Office	(10,969)	(9,543)	(10,546)	4,316
Industrial	554	152	100	1,543
	(\$14,928)	(\$16,867)	(\$45,210)	(\$802)

NET OPERATING INCOME BY ASSET TYPE AND LOCATION

The following is a geographical breakdown of the net operating income for the nine months ended September 30, 2019.

Location	Retail		Office		Industrial		Total		
	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	%
British Columbia	2	\$5,681	3	\$9,751	—	\$—	5	\$15,432	14%
Alberta	5	7,771	9	23,519	—	—	14	31,290	29%
Saskatchewan	1	6,000	—	—	—	—	1	6,000	5%
Manitoba	3	9,624	—	—	—	—	3	9,624	9%
Ontario	8	27,245	8	13,145	4	1,416	20	41,806	38%
Quebec	—	—	1	4,976	—	—	1	4,976	5%
	19	56,321	21	51,391	4	1,416	44	109,128	100%
IPP held for development	2	892	1	420	—	(51)	3	1,261	
Income producing properties	21	57,213	22	51,811	4	1,365	47	110,389	
Properties held for sale/sold	—	—	—	—	—	815	—	815	
Total real estate properties	21	57,213	22	51,811	4	2,180	47	111,204	
Equity-accounted investment	—	—	1	3,228	—	—	1	3,228	
Grand Total	21	\$57,213	23	\$55,039	4	\$2,180	48	\$114,432	
% ¹		52%		47%		1%		100%	

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

COMPARATIVE NET OPERATING INCOME BY ASSET TYPE

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Variance	%	2019	2018	Variance	%
Enclosed regional centres	\$12,954	\$13,160	(\$206)	(1.6%)	\$39,541	\$41,098	(\$1,557)	(3.8%)
Community strip centres	5,896	5,048	848	16.8%	17,672	15,701	1,971	12.6%
Subtotal – retail	18,850	18,208	642	3.5%	57,213	56,799	414	0.7%
Single-/dual-tenant buildings	13,399	13,920	(521)	(3.7%)	40,757	40,146	611	1.5%
Multi-tenant buildings	3,587	4,298	(711)	(16.5%)	11,054	12,475	(1,421)	(11.4%)
Subtotal – office	16,986	18,218	(1,232)	(6.8%)	51,811	52,621	(810)	(1.5%)
Industrial	551	774	(223)	(28.8%)	2,180	2,288	(108)	(4.7%)
Net operating income	\$36,387	\$37,200	(\$813)	(2.2%)	\$111,204	\$111,708	(\$504)	(0.5%)

RETAIL PROPERTIES – NET OPERATING INCOME

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Variance	%	2019	2018	Variance	%
Revenue from real estate properties	\$36,059	\$34,634	\$1,425	4.1%	\$110,075	\$107,942	\$2,133	2.0%
Property operating expenses	(8,609)	(7,752)	(857)	11.1%	(26,479)	(24,625)	(1,854)	7.5%
Property taxes	(7,359)	(7,479)	120	(1.6%)	(22,584)	(22,806)	222	(1.0%)
Property management fees	(1,241)	(1,195)	(46)	3.8%	(3,799)	(3,712)	(87)	2.3%
Net operating income	\$18,850	\$18,208	\$642	3.5%	\$57,213	\$56,799	\$414	0.7%

The Trust's retail properties NOI for the three months ended September 30, 2019, was \$18.9 million versus \$18.2 million for the same period ended 2018, an increase of \$0.6 million.

The Trust's retail properties NOI for the nine months ended September 30, 2019, was \$57.2 million versus \$56.8 million for the same period ended 2018, an increase of \$0.4 million.

Both increases are mainly due to decreased vacancy costs in the Trust's community strip centres portfolio.

OFFICE PROPERTIES – NET OPERATING INCOME

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Variance	%	2019	2018	Variance	%
Revenue from real estate properties	\$29,357	\$31,557	(\$2,200)	(7.0%)	\$90,304	\$92,899	(\$2,595)	(2.8%)
Property operating expenses	(6,920)	(6,685)	(235)	3.5%	(22,178)	(21,480)	(698)	3.2%
Property taxes	(4,500)	(5,665)	1,165	(20.6%)	(13,525)	(15,870)	2,345	(14.8%)
Property management fees	(951)	(989)	38	(3.8%)	(2,790)	(2,928)	138	(4.7%)
Net operating income	\$16,986	\$18,218	(\$1,232)	(6.8%)	\$51,811	\$52,621	(\$810)	(1.5%)

The Trust's office properties NOI for the three months ended September 30, 2019, was \$17.0 million versus \$18.2 million for the same period ended 2018. The unfavourable variance of \$1.2 million is mainly the result of increased vacancy costs of \$0.8 million, coupled with higher lease cancellation fees collected in 2018 of \$0.3 million.

The Trust's office properties NOI for the nine months ended September 30, 2019, was \$51.8 million versus \$52.6 million for the same period ended 2018. The unfavourable variance of \$0.8 million is mainly the result of increased vacancy costs of \$0.8 million.

Property tax expense and recoveries have declined in 2019 due to reductions processed by the city of Calgary for buildings in the downtown core.

INDUSTRIAL PROPERTIES – NET OPERATING INCOME

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Variance	%	2019	2018	Variance	%
Revenue from real estate properties	\$947	\$1,082	(\$135)	(12.5%)	\$3,446	\$3,706	(\$260)	(7.0%)
Property operating expenses	(206)	(245)	39	(15.9%)	(596)	(751)	155	(20.6%)
Property taxes	(166)	(29)	(137)	472.4%	(579)	(560)	(19)	3.4%
Property management fees	(24)	(34)	10	(29.4%)	(91)	(107)	16	(15.0%)
Net operating income	\$551	\$774	(\$223)	(28.8%)	\$2,180	\$2,288	(\$108)	(4.7%)

The Trust's industrial properties NOI for the three months ended September 30, 2019, was \$0.6 million versus \$0.8 million for the same period ended 2018. The decrease of \$0.2 million is the result of the sale of 825 Des Erables in July of 2019.

The Trust's industrial properties NOI for the nine months ended September 30, 2019, was \$2.2 million versus \$2.3 million for the same period ended 2018. The decrease of \$0.1 million is the result of the sale of 825 Des Erables in July of 2019, offset by decreased vacancy costs.

NET OPERATING INCOME – SAME ASSETS

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

For the three months ended September 30,	2019	2018	Variance	%
Enclosed regional centres (retail)	\$12,363	\$12,868	(\$505)	(3.9%)
Community strip centres (retail)	5,525	5,419	106	2.0%
Single-/dual-tenant buildings (office)	13,610	13,571	39	0.3%
Multi-tenant buildings (office)	3,505	4,099	(594)	(14.5%)
Industrial properties	452	438	14	3.2%
Net operating income – same assets	35,455	36,395	(940)	(2.6%)
Area under development	688	289	399	138.1%
Real estate properties held for development/held for sale/sold	547	235	312	132.8%
Lease cancellation fees	—	255	(255)	(100.0%)
Stepped rents	(303)	205	(508)	(247.8%)
Other	—	(179)	179	(100.0%)
Net operating income per the statement of income	\$36,387	\$37,200	(\$813)	(2.2%)

For the nine months ended September 30,	2019	2018	Variance	%
Enclosed regional centres (retail)	\$37,518	\$39,942	(\$2,424)	(6.1%)
Community strip centres (retail)	16,446	16,273	173	1.1%
Single-/dual-tenant buildings (office)	40,644	39,671	973	2.5%
Multi-tenant buildings (office)	10,725	11,664	(939)	(8.1%)
Industrial properties	1,319	1,285	34	2.6%
Net operating income – same assets	106,652	108,835	(2,183)	(2.0%)
Area under development	1,987	627	1,360	216.9%
Real estate properties held for development/held for sale/sold	2,076	1,045	1,031	98.7%
Lease cancellation fees	801	755	46	6.1%
Stepped rents	(312)	799	(1,111)	(139.0%)
Other	—	(353)	353	(100.0%)
Net operating income per the statement of income	\$111,204	\$111,708	(\$504)	(0.5%)

LEASING ACTIVITY

The table below provides a summary of the leasing activity for the nine months ended September 30, 2019.

For the nine months ended September 30, 2019	Enclosed Regional Centres	Community Strip Centres	Single-/Dual-Tenant Buildings	Multi-Tenant Buildings	Industrial Properties	Total Portfolio
Opening vacancy (SF)	194,160	31,131	36,581	189,903	44,421	496,196
Opening occupancy	93.5%	97.5%	98.4%	80.9%	91.7%	93.8%
EXPIRING LEASES:						
Square feet	279,351	51,682	72,081	115,783	15,706	534,603
Average contract rent per SF	\$20.63	\$22.38	\$27.57	\$16.36	\$6.03	\$20.46
EARLY TERMINATIONS:						
Square feet	61,671	4,060	15,382	10,735	16,951	108,799
Average contract rent per SF	\$31.68	\$25.68	\$16.49	\$20.37	\$6.95	\$24.57
RENEWALS:						
Square feet	(194,021)	(36,581)	(62,310)	(42,937)	(7,207)	(343,056)
Average contract rent per SF	\$14.47	\$22.48	\$24.15	\$15.18	\$6.20	\$16.99
Retention rate	69%	71%	86%	37%	46%	64%
NEW LEASING:						
Square feet	(175,023)	(13,703)	(14,982)	(55,440)	(41,391)	(300,539)
Average contract rent per SF	\$22.16	\$27.01	\$18.52	\$14.57	\$7.06	\$18.72
OTHER ADJUSTMENTS:						
Square feet	38,427	(9,869)	—	—	—	28,558
Ending vacancy (SF)	204,565	26,720	46,752	218,044	28,480	524,561
Ending occupancy	93.3%	97.9%	97.9%	78.1%	90.3%	93.3%

The decrease in average renewal contract rent as compared to expiring for the enclosed regional centres is mainly due to the seasonality of temporary tenants expiring at much higher rents for the Christmas holiday season, and renewing at much lower rents for the off-peak season.

LEASE PROFILE

The Trust has the opportunity to increase rental rates on lease maturity where the current contract rent is less than the going market rate.

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

	Retail		Office		Industrial		Total	
	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent
(remainder of the year) 2019	261,711	\$22.90	67,208	\$21.13	3,941	\$9.05	332,860	\$22.33
2020	639,702	26.27	178,578	23.59	4,595	11.86	822,875	25.54
2021	880,385	14.22	395,915	21.51	71,302	7.75	1,347,602	16.07
2022	466,615	26.09	242,918	19.23	16,580	10.15	726,113	23.43
2023	438,657	25.51	271,068	16.88	48,692	7.01	758,417	21.24
Thereafter	1,362,503	25.00	1,777,127	24.94	118,607	7.14	3,258,237	24.31
Current vacancy	231,285	—	264,796	—	28,480	—	524,561	—
Total	4,280,858	\$22.90	3,197,610	\$23.09	292,197	\$7.58	7,770,665	\$22.41
Weighted average remaining lease term (years)		4.27		5.20		3.85		4.63

Lower weighted average contract rent for the year 2021 (retail) is the result of anchor tenant lease maturities.

CHANGES IN GLA

The table below provides a summary of the changes in GLA for the nine months ended September 30, 2019.

In thousands of SF	Enclosed Regional Centres	Community Strip Centres	Total Retail	Single-/Dual-Tenant Buildings	Multi-Tenant Buildings	Total Office	Industrial Properties	Total Portfolio
GLA – opening balance – January 1, 2019	3,305	1,324	4,629	2,246	994	3,240	534	8,403
Changes due to re-measurement	3	—	3	—	—	—	—	3
Cambridge Centre – Sears	138	—	138	—	—	—	—	138
Disposition - 825 Des Erables	—	—	—	—	—	—	(242)	(242)
Other	(18)	—	(18)	—	—	—	—	(18)
GLA – closing balance – September 30, 2019	3,428	1,324	4,752	2,246	994	3,240	292	8,284
Area under/held for development/sale	(393)	(77)	(470)	(43)	—	(43)	—	(513)
GLA for purposes of occupancy	3,035	1,247	4,282	2,203	994	3,197	292	7,771
Occupied GLA	2,830	1,220	4,050	2,156	776	2,932	264	7,246
Occupied GLA (%)	93.3%	97.9%	94.6%	97.9%	78.1%	91.7%	90.3%	93.3%

CORPORATE ITEMS

INTEREST EXPENSE

Interest expense totalled \$43.6 million for the nine months ended September 30, 2019, compared to \$41.4 million for the same period in 2018. The components of interest expense are as follows:

INTEREST EXPENSE

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	%	2019	2018	%
Mortgages payable	\$10,929	\$10,957	(0.3%)	\$33,058	\$32,518	1.7%
Amortization of deferred financing costs – mortgages	179	172	4.1%	486	515	(5.6%)
Convertible debentures	1,985	1,985	—%	5,890	5,890	—%
Accretion on convertible debentures, net	231	218	6.0%	712	673	5.8%
Amortization of deferred financing costs – convertible debentures	244	230	6.1%	751	710	5.8%
Lease liabilities	174	—	—%	524	—	—%
Bank indebtedness	521	330	57.9%	1,637	1,104	48.3%
Morguard loan payable and other	378	427	(11.5%)	969	788	23.0%
Capitalized interest	(108)	(336)	(67.9%)	(423)	(772)	(45.2%)
	\$14,533	\$13,983	3.9%	\$43,604	\$41,426	5.3%

The increase in interest on mortgages payable for the nine months ended September 30, 2019, was mainly the result of increased principal balance on mortgage financing completed in 2018, offset by interest savings resulting from scheduled mortgage amortizations. Interest on bank indebtedness and on Morguard loan payable has increased due to an increase in bank line use and higher short term borrowing rates compared to the same period in 2018.

FAIR VALUE (LOSSES)/GAINS ON REAL ESTATE PROPERTIES

For the three months ended September 30, 2019, the Trust recorded fair value losses on real estate properties of \$14.9 million, versus \$16.9 million of fair value losses on real estate properties for 2018.

For the nine months ended September 30, 2019, the Trust recorded fair value losses on real estate properties of \$45.2 million, versus \$0.8 million of fair value losses on real estate properties for 2018.

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

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

FAIR VALUE (LOSSES)/GAINS ON REAL ESTATE PROPERTIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Retail	(\$4,513)	(\$7,476)	(\$34,764)	(\$6,661)
Office	(10,969)	(9,543)	(10,546)	4,316
Industrial	554	152	100	1,543
	(\$14,928)	(\$16,867)	(\$45,210)	(\$802)

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, 2018 – 4.3% to 7.5%), resulting in an overall weighted average capitalization rate of 6.3% (December 31, 2018 – 6.1%). The total stabilized annual net operating income as at September 30, 2019, was \$171,131 (December 31, 2018 – \$167,197).

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

STABILIZED CAPITALIZATION RATES

	September 30, 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%	6.4%	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%	5.8%	5.5%	5.7%	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:

DISCOUNT AND TERMINAL CAPITALIZATION RATES

	September 30, 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%	6.1%	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	6.8%	6.3%	6.5%	7.3%	6.3%	6.8%
Terminal cap rate	6.0%	5.8%	5.8%	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 September 30, 2019, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent comparable land sales.

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 September 30, 2019, would decrease by \$102,108 or increase by \$110,483, respectively.

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

SENSITIVITY ANALYSIS

For the nine months ended	September 30, 2019		September 30, 2018	
Change in capitalization rate	0.25%	(0.25%)	0.25%	(0.25%)
Retail	(\$56,278)	\$60,862	(\$60,226)	\$65,326
Office	(44,294)	47,944	(44,708)	48,495
Industrial	(1,536)	1,677	(1,801)	1,941
	(\$102,108)	\$110,483	(\$106,735)	\$115,762

NET INCOME FROM EQUITY-ACCOUNTED INVESTMENT

For the nine months ended September 30, 2019, the Trust incurred \$0.7 million in losses from its equity-accounted investment compared to \$0.0 million of income for the same nine months ended September 30, 2018. The unfavourable variance of \$0.7 million is largely the result of the recorded loss from fair value on the investment of \$3.2 million in 2019, versus a loss of \$2.4 million in 2018.

PRODUCTIVE CAPACITY MAINTENANCE EXPENDITURES

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

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

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

The Trust uses normalized PCME to calculate AFFO. Normalized PCME are an estimate made by management of the amount of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. Management considers a number of factors in estimating normalized PCME relative to the growth in age and size of the Trust's property portfolio. Such factors include, but are not limited to, review and analysis of three years of historical capital spending, comparison of each quarter's annualized actual spending activity to annual budgeted capital expenditures as approved by the Trustees and management's expectations and/or plans for the properties.

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

The following table provides a breakdown of actual PCME for the three and nine months ended September 30, 2019, and 2018.

ACTUAL PRODUCTIVE CAPACITY MAINTENANCE EXPENDITURES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Leasing commissions	\$1,086	\$648	\$2,589	\$1,554
Tenant allowances	569	1,812	4,220	4,594
Total leasing costs	1,655	2,460	6,809	6,148
Capital expenditures recoverable from tenants	3,924	5,578	6,991	8,688
Capital expenditures non-recoverable from tenants	29	—	160	39
Total capital expenditures	3,953	5,578	7,151	8,727
Total PCME	5,608	8,038	13,960	14,875
Discretionary capital expenditures	—	90	1	606
Total leasing costs and capital expenditures	\$5,608	\$8,128	\$13,961	\$15,481
Total PCME	\$5,608	\$8,038	\$13,960	\$14,875
Normalized PCME	6,250	6,250	18,750	18,750
Shortfall/(excess) between total PCME and normalized PCME	\$642	(\$1,788)	\$4,790	\$3,875

Discretionary Capital Expenditures

In addition to PCME, the Trust invests in discretionary capital projects on the development of new space, redevelopment or retrofit of existing properties, and other capital expenditures to create additional long-term value for the Trust's real estate

portfolio. These discretionary capital expenditures are not expected to occur on a consistent basis. These expenditures are included in the above table, along with the recoverable and non-recoverable capital expenditures.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

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

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

In thousands of dollars, except per unit amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$6,254	\$4,981	\$18,468	\$66,023
Adjustments:				
Fair value losses on real estate properties ¹	15,475	17,878	48,362	3,211
Amortization of right-of-use assets	21	—	62	—
Payment of lease liabilities	(29)	—	(86)	—
Funds from operations – basic	21,721	22,859	66,806	69,234
Interest expense on convertible debentures	1,985	1,985	5,890	5,890
Funds from operations – diluted	\$23,706	\$24,844	\$72,696	\$75,124
Funds from operations – basic	\$21,721	\$22,859	\$66,806	\$69,234
Adjustments:				
Amortized stepped rents ¹	325	(136)	437	(630)
Normalized PCME	(6,250)	(6,250)	(18,750)	(18,750)
Adjusted funds from operations – basic	15,796	16,473	48,493	49,854
Interest expense on convertible debentures	1,985	1,985	5,890	5,890
Adjusted funds from operations – diluted	\$17,781	\$18,458	\$54,383	\$55,744
FUNDS FROM OPERATIONS PER UNIT				
Basic	\$0.36	\$0.38	\$1.10	\$1.14
Diluted ²	\$0.34	\$0.35	\$1.05	\$1.08
ADJUSTED FUNDS FROM OPERATIONS PER UNIT				
Basic	\$0.26	\$0.27	\$0.80	\$0.82
Diluted ²	\$0.26	\$0.26	\$0.78	\$0.80
DISTRIBUTIONS				
Cash distributions per unit	\$0.24	\$0.24	\$0.72	\$0.72
Distributions paid as a percentage of AFFO per unit – basic	92.3%	88.9%	90.0%	87.8%
WEIGHTED AVERAGE UNITS OUTSTANDING (IN THOUSANDS)				
Basic	60,715	60,713	60,705	60,703
Diluted ²	69,294	69,291	69,284	69,282

1. Includes respective adjustments included in net income from equity-accounted investment.

2. Includes the dilutive impact of convertible debentures.

ADJUSTED CASH FLOW FROM OPERATIONS

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

ADJUSTED CASH FLOW FROM OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash provided by operating activities	\$23,689	\$18,545	\$57,460	\$62,836
Adjustments:				
Adjustment to working capital changes for ACFO ¹	(4,653)	4,733	10,327	9,228
Normalized PCME	(6,250)	(6,250)	(18,750)	(18,750)
Actual additions to tenant incentives and leasing commissions	1,086	646	2,632	1,563
Amortization of deferred financing costs	(423)	(402)	(1,237)	(1,225)
Payment of lease liabilities	(29)	—	(86)	—
ACFO from equity-accounted investment	407	542	1,008	1,272
Adjusted cash flow from operations – basic	13,827	17,814	51,354	54,924
Interest expense on convertible debentures	1,985	1,985	5,890	5,890
Adjusted cash flow from operations – diluted	\$15,812	\$19,799	\$57,244	\$60,814
Adjusted cash flow from operations – basic	\$13,827	\$17,814	\$51,354	\$54,924
Cash distributions	14,437	14,441	38,525	38,501
(Shortfall)/excess adjusted cash flow from operations over cash distributions	(\$610)	\$3,373	\$12,829	\$16,423

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

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

ADJUSTMENT TO WORKING CAPITAL CHANGES FOR ACFO

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Development accruals	(\$786)	\$3,435	\$2,369	\$4,096
Prepaid realty taxes and insurance	1,029	3,295	11,375	8,360
Interest payable and receivable	(1,983)	(2,182)	(1,851)	(2,088)
Insurance claims	(2,913)	185	(1,566)	(1,140)
Adjustment to working capital changes for ACFO	(4,653)	4,733	10,327	9,228
Net change in non-cash operating assets and liabilities as per the financial statements	2,188	(5,035)	(8,585)	(6,534)
Net working capital changes included in ACFO	(\$2,465)	(\$302)	\$1,742	\$2,694

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

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

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

DISTRIBUTIONS TO UNITHOLDERS

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

The Trust expects to distribute to its unitholders in each year an amount not less than the Trust's taxable income for the year, as calculated in accordance with the *Income Tax Act* (Canada) ("the Act"). The Trust's monthly distribution to unitholders in 2019 was \$0.08 per unit, representing \$0.96 per unit on an annualized basis.

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

PART IV

REAL ESTATE OVERVIEW

The carrying value of the Trust's real estate properties remained unchanged at \$2.9 billion at September 30, 2019 (December 31, 2018 – \$2.9 billion).

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

PROPERTIES UNDER DEVELOPMENT

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

The following is a list of development projects:

DEVELOPMENT PROJECTS

	Portfolio	New	Est. GLA Under Develop- ment	Total	Est. Project Cost	Spend to Date	Completion Date	Comments
RETAIL								
The Centre	Enclosed regional centres	30,000	—	30,000	\$9,800	\$6,196	Q4 2019	Construction of new freestanding pad space
The Centre	Enclosed regional centres	—	68,000	68,000	5,050	1,397	Q3 2020	Anchor tenant remerchandising of portion of former Target space
The Centre	Enclosed regional centres	—	—	—	19,500	4,226	Q3 2020	Full-scale mall renovation
Pine Centre Mall	Enclosed regional centres	—	112,000	112,000	16,756	2,619	Q1 2021	Anchor tenant remerchandising of former Sears space
St. Laurent Centre	Enclosed regional centres	—	76,000	76,000	TBD	—	TBD	Anchor tenant remerchandising of portion of former Sears space
Cambridge Centre	Enclosed regional centres	—	138,000	138,000	TBD	—	TBD	Anchor tenant remerchandising of former Sears space
Development projects		30,000	394,000	424,000	\$51,106	\$14,438		

On July 31, 2019, the Trust announced the kickoff of a significant redevelopment project that will modernize the interior of Pine Centre Mall in Prince George, British Columbia and will refit the former Sears space to welcome new retailers and service providers. The Trust is investing approximately \$17.0 million in the renovation project for the shopping centre, which also includes a new mall entrance.

DEVELOPMENT PROJECTS – COMPLETED IN 2018 & 2019

	Portfolio	New	Re-developed	GLA		Income Producing	Date	Total Project Cost	Occupancy % ²	Comments
				Total	Adjust-ment ¹					
RETAIL										
Shoppers Mall	Enclosed regional centres	13,000	—	13,000	—	13,000	Q2 2018	\$5,176	100.0%	Construction of new freestanding pad space for Cara brand restaurants
Market Square	Community strip centres	10,000	—	10,000	(300)	9,700	Q3 2018	4,882	100.0%	Construction of new freestanding pad space
Cambridge Centre ³	Enclosed regional centres	—	134,000	134,000	(7,200)	126,800	Q3 2018	26,723	100.0%	Anchor tenant remerchandising of former Target space for Marshalls, Kingpin Cambridge, Sport Check and Indigo
Shoppers Mall	Enclosed regional centres	—	46,500	46,500	(12,500)	34,000	Q4 2018	10,105	82.4%	Anchor tenant remerchandising of remaining former Target space for Shoppers Drug Mart and Ardene
Pine Centre Mall	Enclosed regional centres	7,000	—	7,000	(200)	6,800	Q1 2019	3,459	100.0%	Construction of new freestanding pad space
Parkland Mall	Enclosed regional centres	—	56,500	56,500	(12,900)	43,600	Q1 2019	8,381	54.1%	Anchor tenant remerchandising of former Safeway space
Kingsbury Centre	Community strip centres	—	—	—	—	—	Q1 2019	883	N/A	Facade Renovation
		30,000	237,000	267,000	(33,100)	233,900		\$59,609		

1. GLA adjustment due to reconfiguration caused by change in use.

2. Represents occupied GLA for development projects as a percentage of total GLA for development projects.

3. There is approximately \$1.3 million to be spent on this project for the completion of the Mark's space.

For the nine months ended September 30, 2019, the projects completed since January 1, 2018, contributed \$2.0 million in NOI (incrementally \$1.4 million over 2018).

DISPOSITIONS

On July 31, 2019, the Trust disposed of a single-tenant industrial property, located at 825 Des Érables, Quebec, for gross proceeds of \$16.1 million.

PART V

LIQUIDITY AND CAPITAL RESOURCES

DEBT AND LEVERAGE METRICS

	For the nine months ended September 30, 2019	For the twelve months ended December 31, 2018	For the nine months ended September 30, 2018
Interest coverage ratio ¹	2.44	2.60	2.57
Debt service coverage ratio ²	1.55	1.58	1.56
Debt ratio ³	45.0%	45.1%	44.7%
Weighted average rates on mortgages	4.1%	4.1%	4.1%
Average term to maturity on mortgages (years)	4.0	4.1	4.3
Distributions as a percentage of adjusted funds from operations – basic	90.0%	84.2%	87.8%
Unencumbered assets to unsecured debt	151.6%	178.6%	138.9%
Unencumbered assets	\$311,450	\$312,514	\$309,047
Unsecured debt	\$205,500	\$175,000	\$222,500

1. Interest coverage defined as: Net income before taxes, interest, amortization and fair value changes, divided by total interest expense at the Trust's share (including interest that has been capitalized).

2. Debt service coverage defined as: Net income before taxes, interest, amortization and fair value changes, divided by total interest expense at the Trust's share (including interest that has been capitalized), and scheduled mortgage principal repayments.

3. Debt ratio defined as: Total indebtedness, divided by gross book value of total assets.

CASH FLOWS

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash provided by operating activities	\$23,689	\$18,545	\$57,460	\$62,836
Cash (used in)/provided by financing activities	(30,526)	3,639	(43,150)	(7,992)
Cash provided by/(used in) investing activities	2,624	(15,916)	(14,488)	(47,875)
Net change in cash	(4,213)	6,268	(178)	6,969
Cash, beginning of period	14,687	15,453	10,652	14,752
Cash, end of period	\$10,474	\$21,721	\$10,474	\$21,721

Cash provided by operating activities for the nine months ended September 30, 2019, decreased 8.6% to \$57.5 million in 2019 from \$62.8 million in 2018 mainly due to changes in working capital items.

Cash used in financing activities increased to \$43.2 million in 2019 from \$8.0 million in 2018 mainly due to mortgage financing secured in 2018, in relation to capital spending made during that year.

Cash used in investing activities decreased to \$14.5 million in 2019 from \$47.9 million in 2018 due to the sale of 825 Des Erables in July of 2019, coupled with an additional \$14.7 million spent on development projects during 2018, resulting from more active development projects at that time.

DEBT STRATEGY

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

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

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

The Trust has a revolving loan agreement with Morguard that provides for borrowings or advances of up to \$50.0 million, which is interest-bearing at the lender's borrowing rate and due on demand subject to available funds. This loan agreement is meant to provide short-term financing and investing options.

DEBT STRUCTURE

As at	September 30, 2019	%	December 31, 2018	%	September 30, 2018	%
Conventional secured mortgages payable	\$1,079,978	80.1%	\$1,110,075	82.3%	\$1,119,221	83.6%
Unsecured convertible debentures	172,701	12.8%	171,989	12.7%	171,771	12.8%
Secured floating rate bank financing	53,447	4.0%	67,660	5.0%	—	—%
Lease liabilities	11,146	0.8%	—	—%	—	—%
Unsecured floating rate loan payable	30,500	2.3%	—	—%	47,500	3.6%
Gross debt	1,347,772	100.0%	1,349,724	100.0%	1,338,492	100.0%
Less deferred financing costs:						
Mortgages	(2,724)		(2,481)		(2,578)	
Convertible debentures	(2,424)		(3,175)		(3,405)	
Net debt	\$1,342,624		\$1,344,068		\$1,332,509	

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

CONVERTIBLE DEBENTURES

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

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

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

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

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

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

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

DEBT MATURITY PROFILE

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

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

The following tables outline the debt payments as at September 30, 2019, together with the weighted average contractual rate on debt maturing in the years indicated. Also highlighted is the Trust's up-financing opportunity in relation to the fair value of encumbered properties relative to their respective maturing debt.

AGGREGATE MATURITIES

Year	Mortgage Maturity Payments	Scheduled Principal Repayments	Total Mortgages Payable	Debentures Payable	Bank Indebtedness	Revolving Loan	Lease Liabilities	Total Debt
2019	\$16,230	\$9,088	\$25,318	\$—	\$53,447	\$30,500	\$27	\$109,292
2020	114,493	35,670	150,163	—	—	—	124	150,287
2021	153,525	30,414	183,939	175,000	—	—	133	359,072
2022	171,560	26,989	198,549	—	—	—	142	198,691
2023	208,194	16,821	225,015	—	—	—	139	225,154
Thereafter	252,644	44,350	296,994	—	—	—	10,581	307,575
	\$916,646	\$163,332	\$1,079,978	\$175,000	\$53,447	\$30,500	\$11,146	\$1,350,071

INTEREST RATES

Year	Mortgages Payable	Debentures Payable	Bank Indebtedness	Revolving Loan	Lease Liabilities	Total Debt
2019	3.89%	—%	4.00%	4.61%	—%	4.17%
2020	4.59%	—%	—%	—%	—%	4.59%
2021	4.19%	4.50%	—%	—%	—%	4.35%
2022	3.84%	—%	—%	—%	—%	3.84%
2023	3.74%	—%	—%	—%	7.25%	3.75%
Thereafter	4.16%	—%	—%	—%	6.22%	4.23%
	4.06%	4.50%	4.00%	4.61%	6.25%	4.15%

FAIR VALUE OF ENCUMBERED PROPERTIES RELATIVE TO MATURING DEBT

Year	Mortgage Maturity Payments	Scheduled Principal Repayments	Total	Fair Value of Encumbered Assets	Leverage
2019	\$16,230	\$103	\$16,333	\$36,000	45.4%
2020	114,493	4,620	119,113	374,050	31.8%
2021	153,525	10,446	163,971	497,550	33.0%
2022	171,560	24,496	196,056	293,600	66.8%
2023	208,194	28,574	236,768	450,400	52.6%
Thereafter	252,644	95,093	347,737	782,950	44.4%
	\$916,646	\$163,332	\$1,079,978	\$2,434,550	44.4%

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

CREDIT FACILITIES

As at September 30, 2019, the Trust has secured floating rate bank financing availability totalling \$95 million, which renews annually and is secured by fixed charges on specific properties owned by the Trust. The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at September 30, 2019, the Trust was in compliance with all covenants and undertakings. The Trust has a revolving unsecured loan agreement with Morguard that provides for borrowings or advances of up to \$50 million.

LIQUIDITY

As at	September 30, 2019	December 31, 2018
Availability of bank lines of credit	\$95,000	\$85,000
Availability of Morguard loan payable	50,000	50,000
Availability	145,000	135,000
Letters of credit outstanding	(1,267)	(1,309)
Bank indebtedness outstanding	(53,447)	(67,660)
Morguard loan payable outstanding	(30,500)	—
Morguard loan receivable outstanding	—	10,000
Cash	10,474	10,652
Liquidity	\$70,260	\$86,683

PART VI

ACCOUNTING POLICIES AND OTHER ITEMS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Trust's condensed consolidated financial statements for the three and nine months ended September 30, 2019, and 2018, have been prepared in accordance with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual consolidated financial statements, except for the adoption of current accounting policies as described below, and should be read in conjunction with the most recent annual audited consolidated financial statements.

The MD&A for the year ended December 31, 2018, contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being primarily the accounting policies relating to estimates of fair value of real estate properties. Management determined that as at September 30, 2019, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2018.

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

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

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17 "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 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 depreciation 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 measured at cost, less any accumulated depreciation 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 depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The 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. 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.

RISKS AND UNCERTAINTIES

The Trust is exposed to risks as further analyzed and described in the annual MD&A for December 31, 2018.

RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

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

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

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Property management fees ¹	\$2,239	\$2,251	\$6,768	\$6,848
Appraisal/valuation fees	90	91	270	271
Information services	55	55	165	165
Leasing fees	621	632	1,797	1,499
Project administration fees	271	305	402	569
Project management fees	179	48	356	262
Risk management fees	90	76	270	226
Internal audit fees	33	36	101	108
Off-site administrative charges	421	459	1,324	1,366
Rental revenue	(50)	(52)	(151)	(155)
	\$3,949	\$3,901	\$11,302	\$11,159

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

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

As at	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities, net	\$1,077	\$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. The promissory notes are interest bearing at the lender's borrowing rate and are due on demand subject to available funds.

Morguard Loan Payable

During the nine months ended September 30, 2019, a gross amount of \$61,500 was advanced from Morguard, and a gross amount of \$31,000 was repaid to Morguard. As at September 30, 2019 \$30,500 remains payable to Morguard (December 31, 2018 – \$nil). For the three months ended September 30, 2019, the Trust incurred interest expense in the amount of \$328 (2018 – \$427) at an average interest rate of 5.00% (2018 – 3.60%). For the nine months ended September 30, 2019, the Trust incurred interest expense in the amount of \$919 (2018 – \$788) at an average interest rate of 4.76% (2018 – 3.60%).

Morguard Loan Receivable

During the nine months ended September 30, 2019, a gross amount of \$10,000 was repaid from Morguard. As at September 30, 2019, there is no loan receivable from Morguard (December 31, 2018 – \$10,000). For the three months ended September 30, 2019, and 2018, the Trust did not earn interest income on loans receivable from Morguard. For the nine months ended September 30, 2019, the Trust earned interest income on loans receivable from Morguard in the amount of \$33 (2018 – \$nil), at an average interest rate of 5.05% (2018 – n/a). The interest income earned from Morguard is included with other income on the statements of income/(loss) and comprehensive income/(loss).

(c) Sublease with Morguard (Excluding MIL)

The Trust subleases office space from Morguard. For the three months ended September 30, 2019, the Trust incurred rent expense in the amount of \$52 (2018 – \$51). For the nine months ended September 30, 2019, the Trust incurred rent expense in the amount of \$168 (2018 – \$157).

(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	September 30, 2019	December 31, 2018
Amounts receivable	\$63	\$65
Accounts payable and accrued liabilities	\$447	\$7

(e) Rental Revenue from Morguard (Excluding MIL)

Morguard is a tenant in one of the Trust's properties. For the three months ended September 30, 2019, the Trust earned rental revenue in the amount of \$26 (2018 – \$27). For the nine months ended September 30, 2019, the Trust earned rental revenue in the amount of \$80 (2018 – \$79).

FINANCIAL INSTRUMENTS

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

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

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

(a) Mortgages Payable

Mortgages payable are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Trust as at September 30, 2019.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using September 30, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at September 30, 2019, of the mortgages payable has been estimated at \$1,110,475 (December 31, 2018 – \$1,126,796) compared with the carrying value before deferred financing costs of \$1,079,978 (December 31, 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 September 30, 2019, of the Convertible Debentures has been estimated at \$176,750 (December 31, 2018 – \$168,000) compared with the carrying value before deferred financing costs of \$172,701 (December 31, 2018 – \$171,989).

PART VII

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

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

There were no changes in the internal controls over financial reporting that occurred during the Trust's most recent quarter that have materially affected, or are reasonably likely to materially affect, the Trust's internal controls over financial reporting.

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

PART VIII

FINANCIAL STATEMENTS AT THE TRUST'S OWNERSHIP SHARE

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

BALANCE SHEETS – AT THE TRUST'S OWNERSHIP SHARE

As at September 30, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
ASSETS			
Non-current assets			
Real estate properties	\$2,897,666	\$48,500	\$2,946,166
Right-of-use asset	345	—	345
Equity-accounted investment	22,419	(22,419)	—
	2,920,430	26,081	2,946,511
Current assets			
Amounts receivable	12,481	25	12,506
Prepaid expenses and other	12,040	33	12,073
Cash	10,474	527	11,001
	34,995	585	35,580
Total assets	\$2,955,425	\$26,666	\$2,982,091
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	\$943,113	\$—	\$943,113
Convertible debentures	170,277	—	170,277
Lease liabilities	11,025	—	11,025
Accounts payable and accrued liabilities	4,521	7	4,528
	1,128,936	7	1,128,943
Current liabilities			
Mortgages payable	134,141	25,586	159,727
Lease liabilities	121	—	121
Accounts payable and accrued liabilities	52,779	1,073	53,852
Morguard Loan payable	30,500	—	30,500
Bank indebtedness	53,447	—	53,447
	270,988	26,659	297,647
Total liabilities	1,399,924	26,666	1,426,590
Unitholders' equity	1,555,501	—	1,555,501
	\$2,955,425	\$26,666	\$2,982,091

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

For the nine months ended September 30, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
Revenue from real estate properties	\$203,825	\$4,789	\$208,614
Property operating costs			
Property operating expenses	(49,253)	(917)	(50,170)
Property taxes	(36,688)	(504)	(37,192)
Property management fees	(6,680)	(140)	(6,820)
	111,204	3,228	114,432
Interest expense	(43,604)	(748)	(44,352)
General and administrative	(3,234)	—	(3,234)
Amortization expense	(62)	—	(62)
Other income	46	—	46
Fair value losses on real estate properties	(45,210)	(3,152)	(48,362)
Net loss from equity-accounted investment	(672)	672	—
Net income and comprehensive income	\$18,468	\$—	\$18,468

For the nine months ended September 30, 2018	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
Revenue from real estate properties	\$204,547	\$4,756	\$209,303
Property operating costs			
Property operating expenses	(46,856)	(928)	(47,784)
Property taxes	(39,236)	(462)	(39,698)
Property management fees	(6,747)	(140)	(6,887)
	111,708	3,226	114,934
Interest expense	(41,426)	(776)	(42,202)
General and administrative	(3,523)	—	(3,523)
Other income	25	—	25
Fair value losses on real estate properties	(802)	(2,409)	(3,211)
Net income from equity-accounted investment	41	(41)	—
Net income and comprehensive income	\$66,023	\$—	\$66,023

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

For the nine months ended September 30, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
OPERATING ACTIVITIES			
Net income	\$18,468	\$—	\$18,468
Add items not affecting cash	48,554	2,795	51,349
Distributions from equity-accounted investment	1,655	(1,655)	—
Additions to tenant incentives and leasing commissions	(2,632)	—	(2,632)
Net change in non-cash operating assets and liabilities	(8,585)	(128)	(8,713)
Cash provided by operating activities	57,460	1,012	58,472
FINANCING ACTIVITIES			
Proceeds from new mortgages	140,892	—	140,892
Financing costs on new mortgages	(729)	—	(729)
Repayment of mortgages			
Repayments on maturity	(145,892)	—	(145,892)
Principal instalment repayments	(25,097)	(769)	(25,866)
Payment of lease liabilities	(86)	—	(86)
Repayment of bank indebtedness	(14,213)	—	(14,213)
Decrease in Morguard loan receivable	10,000	—	10,000
Proceeds from Morguard loan payable	61,500	—	61,500
Repayment of Morguard loan payable	(31,000)	—	(31,000)
Distributions to unitholders	(38,525)	—	(38,525)
Cash used in financing activities	(43,150)	(769)	(43,919)
INVESTING ACTIVITIES			
Capital expenditures on real estate properties	(10,912)	(417)	(11,329)
Expenditures on properties under development	(19,490)	—	(19,490)
Proceeds from sale of real estate properties, net	15,914	—	15,914
Cash used in investing activities	(14,488)	(417)	(14,905)
Net change in cash	(178)	(174)	(352)
Cash, beginning of period	10,652	701	11,353
Cash, end of period	\$10,474	\$527	\$11,001

For the nine months ended September 30, 2018

	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
OPERATING ACTIVITIES			
Net income	\$66,023	\$—	\$66,023
Add items not affecting cash	3,454	2,770	6,224
Distributions from equity-accounted investment	1,456	(1,456)	—
Additions to tenant incentives and leasing commissions	(1,563)	(2)	(1,565)
Net change in non-cash operating assets and liabilities	(6,534)	(99)	(6,633)
Cash provided by operating activities	62,836	1,213	64,049
FINANCING ACTIVITIES			
Proceeds from new mortgages	118,241	—	118,241
Financing costs on new mortgages	(600)	—	(600)
Repayment of mortgages			
Repayments on maturity	(54,584)	—	(54,584)
Principal instalment repayments	(27,187)	(741)	(27,928)
Proceeds from bank indebtedness	(17,861)	—	(17,861)
Proceeds from Morguard loan payable	42,500	—	42,500
Repayment of Morguard loan payable	(30,000)	—	(30,000)
Distributions to unitholders	(38,501)	—	(38,501)
Cash used in financing activities	(7,992)	(741)	(8,733)
INVESTING ACTIVITIES			
Capital expenditures on real estate properties	(13,689)	(227)	(13,916)
Expenditures on properties under development	(34,186)	—	(34,186)
Cash used in investing activities	(47,875)	(227)	(48,102)
Net change in cash	6,969	245	7,214
Cash, beginning of period	14,752	506	15,258
Cash, end of period	\$21,721	\$751	\$22,472

PART IX

SUMMARY OF QUARTERLY RESULTS

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

SUMMARY OF SELECTED QUARTERLY INFORMATION

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
In thousands of dollars, except per-unit amounts	2019	2019	2019	2018	2018	2018	2018	2017
Revenue from real estate properties	\$66,363	\$67,008	\$70,454	\$71,926	\$67,273	\$68,029	\$69,245	\$72,225
Net operating income	36,387	36,957	37,860	40,370	37,200	36,862	37,646	41,628
Fair value (losses)/gains on real estate properties	(14,928)	(24,602)	(5,680)	(17,800)	(16,867)	22,060	(5,995)	(33,223)
Net income/(loss)	6,254	(4,701)	16,915	6,992	4,981	43,431	17,611	(7,741)
Funds from operations	21,721	21,999	23,086	25,758	22,859	22,825	23,550	27,618
Adjusted funds from operations ³	15,796	15,838	16,859	19,540	16,473	16,359	17,022	21,196
Net income/(loss) – basic	\$0.10	(\$0.08)	\$0.28	\$0.11	\$0.08	\$0.72	\$0.29	(\$0.13)
Net income/(loss) – diluted	\$0.10	(\$0.08)	\$0.25	\$0.13	\$0.08	\$0.62	\$0.27	(\$0.07)
Funds from operations – basic	\$0.36	\$0.36	\$0.38	\$0.42	\$0.38	\$0.37	\$0.39	\$0.45
Funds from operations – diluted	\$0.34	\$0.35	\$0.36	\$0.40	\$0.35	\$0.36	\$0.37	\$0.43
Adjusted funds from operations – basic ³	\$0.26	\$0.26	\$0.28	\$0.32	\$0.27	\$0.27	\$0.28	\$0.35
Adjusted funds from operations – diluted ³	\$0.26	\$0.26	\$0.27	\$0.32	\$0.26	\$0.27	\$0.27	\$0.34
Cash distributions per unit	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24
Payout ratio – Adjusted funds from operations	92.3%	92.3%	85.7%	75.0%	88.9%	88.9%	85.7%	68.6%
Weighted average number of units as at quarter-end (in thousands)								
Basic	60,715	60,705	60,696	60,709	60,713	60,703	60,694	60,664
Diluted	69,294	69,283	69,275	69,287	69,291	69,281	69,272	69,242
Balance sheets								
Total assets	\$2,955,425	\$2,983,511	\$2,991,809	\$2,978,573	\$2,982,860	\$2,978,658	\$2,932,734	\$2,921,091
Total debt	\$1,347,772	\$1,351,807	\$1,344,542	\$1,344,068	\$1,332,509	\$1,313,809	\$1,298,669	\$1,300,102
Total equity	\$1,555,501	\$1,563,684	\$1,582,826	\$1,580,414	\$1,588,258	\$1,597,718	\$1,568,723	\$1,565,591
Gross leasable area as at quarter-end (in thousands of square feet) ¹								
Retail	4,752	4,749	4,761	4,629	4,641	4,606	4,594	4,793
Office	3,240	3,240	3,240	3,240	3,240	3,240	3,239	3,241
Industrial	292	534	534	534	534	534	534	534
Total	8,284	8,523	8,535	8,403	8,415	8,380	8,367	8,568
Occupancy as at quarter-end (%) ²								
Retail	94.6%	94.2%	94.0%	94.7%	94.0%	95.4%	96.0%	96.6%
Office	91.7%	91.7%	91.8%	92.9%	93.2%	92.4%	92.7%	93.1%
Industrial	90.3%	90.3%	88.5%	91.7%	97.7%	94.6%	98.3%	98.0%
Total	93.3%	93.0%	92.7%	93.8%	94.0%	94.1%	94.8%	95.3%

1. Excludes equity-accounted investment.

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

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

PART X

PROPERTY LISTING

RETAIL PROPERTIES

Property	City	Province	Ownership Interest (%)	Gross Area (SF)	Ownership Area (SF)
Burquitlam Plaza	Coquitlam	BC	100	68,000	68,000
Pine Centre Mall	Prince George	BC	100	483,000	483,000
Shelbourne Plaza	Victoria	BC	100	57,000	57,000
Airdrie Co-op Centre	Airdrie	AB	100	70,000	70,000
Airdrie RONA Centre	Airdrie	AB	100	44,000	44,000
Heritage Towne Centre	Calgary	AB	100	131,000	131,000
Prairie Mall	Grande Prairie	AB	50	263,000	131,500
Parkland Mall	Red Deer	AB	100	448,000	448,000
The Centre	Saskatoon	SK	100	488,500	488,500
Shoppers Mall	Brandon	MB	100	361,000	361,000
Charleswood Centre	Winnipeg	MB	100	123,000	123,000
Southdale Centre	Winnipeg	MB	100	175,500	175,500
Aurora Centre	Aurora	ON	100	304,000	304,000
Cambridge Centre	Cambridge	ON	100	719,000	719,000
Market Square	Kanata	ON	100	68,000	68,000
Wonderland Corners	London	ON	100	46,000	46,000
Kingsbury Centre	Mississauga	ON	100	70,000	70,000
Hampton Park Plaza	Ottawa	ON	100	102,000	102,000
Home Base	Ottawa	ON	100	10,000	10,000
St. Laurent	Ottawa	ON	100	797,500	797,500
Woodbridge Square	Vaughan	ON	50	112,000	56,000
Total Retail (21)				4,940,500	4,753,000

OFFICE PROPERTIES

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

INDUSTRIAL PROPERTIES

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

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BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Real estate properties	4	\$2,897,666	\$2,915,592
Right-of-use asset	5	345	—
Equity-accounted investment	6	22,419	24,746
		2,920,430	2,940,338
Current assets			
Amounts receivable		12,481	17,016
Morguard loan receivable	15(b)	—	10,000
Prepaid expenses and other		12,040	567
Cash		10,474	10,652
		34,995	38,235
Total assets		\$2,955,425	\$2,978,573
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	8	\$943,113	\$913,490
Convertible debentures	9	170,277	168,814
Lease liabilities	10	11,025	—
Accounts payable and accrued liabilities		4,521	4,282
		1,128,936	1,086,586
Current liabilities			
Mortgages payable	8	134,141	194,104
Lease liabilities	10	121	—
Accounts payable and accrued liabilities		52,779	49,809
Morguard loan payable	15(b)	30,500	—
Bank indebtedness	11	53,447	67,660
		270,988	311,573
Total liabilities		1,399,924	1,398,159
Unitholders' equity		1,555,501	1,580,414
		\$2,955,425	\$2,978,573
Commitments and contingencies	18		

See accompanying notes to the condensed consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

(Signed) "Bart S. Munn"

K. Rai Sahi,
Chairman of the Board of Trustees

Bart S. Munn,
Trustee

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per unit amounts

	Note	Three months ended		Nine months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue from real estate properties	12	\$66,363	\$67,273	\$203,825	\$204,547
Property operating costs					
Property operating expenses	13(a)	(15,735)	(14,681)	(49,253)	(46,856)
Property taxes		(12,025)	(13,174)	(36,688)	(39,236)
Property management fees		(2,216)	(2,218)	(6,680)	(6,747)
		36,387	37,200	111,204	111,708
Interest expense	14	(14,533)	(13,983)	(43,604)	(41,426)
General and administrative	13(b)	(911)	(1,048)	(3,234)	(3,523)
Amortization expense		(21)	—	(62)	—
Other income/(expense)		3	(96)	46	25
Fair value losses on real estate properties	4	(14,928)	(16,867)	(45,210)	(802)
Net income/(loss) from equity-accounted investment	6	257	(225)	(672)	41
Net income and comprehensive income		\$6,254	\$4,981	\$18,468	\$66,023
NET INCOME PER UNIT	16(d)				
Basic		\$0.10	\$0.08	\$0.30	\$1.09
Diluted		\$0.10	\$0.08	\$0.30	\$0.99

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF UNITHOLDERS' EQUITY

In thousands of Canadian dollars, except number of units

	Number of Units	Issue of Units	Retained Earnings	Equity Component of Convertible Debentures	Contributed Surplus	Total Unitholders' Equity
Unitholders' equity, January 1, 2018	60,691,729	\$612,063	\$947,070	\$4,594	\$1,864	\$1,565,591
CHANGES DURING THE PERIOD:						
Net income	—	—	66,023	—	—	66,023
Distributions to unitholders	—	—	(43,356)	—	—	(43,356)
Issue of units – DRIP ¹	26,195	346	(346)	—	—	—
Unitholders' equity, September 30, 2018	60,717,924	612,409	969,391	4,594	1,864	1,588,258
CHANGES DURING THE PERIOD:						
Repurchase of units	(37,100)	(375)	(36)	—	—	(411)
Net income	—	—	6,992	—	—	6,992
Distributions to unitholders	—	—	(14,425)	—	—	(14,425)
Issue of units – DRIP ¹	13,229	149	(149)	—	—	—
Unitholders' equity, December 31, 2018	60,694,053	612,183	961,773	4,594	1,864	1,580,414
CHANGES DURING THE PERIOD:						
Net income	—	—	18,468	—	—	18,468
Distributions to unitholders	—	—	(43,381)	—	—	(43,381)
Issue of units – DRIP ¹	26,778	326	(326)	—	—	—
Unitholders' equity, September 30, 2019	60,720,831	\$612,509	\$936,534	\$4,594	\$1,864	\$1,555,501

1. Distribution Reinvestment Plan ("DRIP").

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

	Note	Three months ended		Nine months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
OPERATING ACTIVITIES					
Net income		\$6,254	\$4,981	\$18,468	\$66,023
Add items not affecting cash	17(a)	15,828	18,777	48,554	3,454
Distributions from equity-accounted investment	6	505	468	1,655	1,456
Additions to tenant incentives and leasing commissions		(1,086)	(646)	(2,632)	(1,563)
Net change in non-cash operating assets and liabilities	17(b)	2,188	(5,035)	(8,585)	(6,534)
Cash provided by operating activities		23,689	18,545	57,460	62,836
FINANCING ACTIVITIES					
Proceeds from new mortgages		129,639	112,241	140,892	118,241
Financing costs on new mortgages		(648)	(559)	(729)	(600)
Repayment of mortgages					
Repayments on maturity		(129,639)	(54,584)	(145,892)	(54,584)
Principal instalment repayments		(8,501)	(9,018)	(25,097)	(27,187)
Payment of lease liabilities, net		(29)	—	(86)	—
Repayment of bank indebtedness	11	(16,911)	(30,000)	(14,213)	(17,861)
Decrease in Morguard loan receivable	15(b)	—	—	10,000	—
Proceeds from Morguard loan payable	15(b)	10,000	—	61,500	42,500
Repayment of Morguard loan payable	15(b)	—	—	(31,000)	(30,000)
Distributions to unitholders		(14,437)	(14,441)	(38,525)	(38,501)
Cash (used in)/provided by financing activities		(30,526)	3,639	(43,150)	(7,992)
INVESTING ACTIVITIES					
Capital expenditures on real estate properties		(4,369)	(7,362)	(10,912)	(13,689)
Expenditures on properties under development		(8,921)	(8,554)	(19,490)	(34,186)
Proceeds from sale of real estate properties, net		15,914	—	15,914	—
Cash provided by/(used in) investing activities		2,624	(15,916)	(14,488)	(47,875)
Net change in cash		(4,213)	6,268	(178)	6,969
Cash, beginning of period		14,687	15,453	10,652	14,752
Cash, end of period		\$10,474	\$21,721	\$10,474	\$21,721

See accompanying notes to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and nine months ended September 30, 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

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

The Trust has a property management agreement with Morguard Investments Limited ("MIL"), a subsidiary of Morguard Corporation ("Morguard"). Morguard is the parent company of the Trust, owning 58.13% of the outstanding units as at September 30, 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 condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"), and thus do not contain all of the disclosures applicable to the annual audited consolidated financial statements.

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

The condensed consolidated financial statements were approved and authorized for issue by the Trustees on October 30, 2019.

NOTE 3

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

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

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17 "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 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 depreciation 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 measured at cost, less any accumulated depreciation 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 depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The 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. 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	September 30, 2019	December 31, 2018
Income producing properties	\$2,843,894	\$2,858,255
Properties under development	16,622	22,887
Held for development	37,150	34,450
	\$2,897,666	\$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	6,735	19,490	—	26,225
Tenant improvements, tenant incentives and commissions	6,809	—	—	6,809
Transfers	25,755	(25,755)	—	—
Disposition	(15,914)	—	—	(15,914)
Fair value (losses)/gains	(47,910)	—	2,700	(45,210)
Other changes	(661)	—	—	(661)
Balance as at September 30, 2019	\$2,843,894	\$16,622	\$37,150	\$2,897,666

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, 2018 – 4.3% to 7.5%), resulting in an overall weighted average capitalization rate of 6.3% (December 31, 2018 – 6.1%). The total stabilized annual net operating income as at September 30, 2019, was \$171,131 (December 31, 2018 – \$167,197).

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

	September 30, 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%	6.4%	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%	5.8%	5.5%	5.7%	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:

	September 30, 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%	6.1%	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	6.8%	6.3%	6.5%	7.3%	6.3%	6.8%
Terminal cap rate	6.0%	5.8%	5.8%	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 September 30, 2019, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent comparable land sales.

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 September 30, 2019, would decrease by \$102,108 or increase by \$110,483, respectively.

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

For the nine months ended	September 30, 2019		September 30, 2018	
Change in capitalization rate	0.25%	(0.25%)	0.25%	(0.25%)
Retail	(\$56,278)	\$60,862	(\$60,226)	\$65,326
Office	(44,294)	47,944	(44,708)	48,495
Industrial	(1,536)	1,677	(1,801)	1,941
	(\$102,108)	\$110,483	(\$106,735)	\$115,762

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	September 30, 2019	December 31, 2018
Balance as at December 31, 2018	\$—	\$—
Adoption of IFRS 16 (Note 3)	407	—
Amortization expense	(62)	—
Balance as at September 30, 2019	\$345	\$—

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	September 30, 2019	December 31, 2018
Balance, beginning of period	\$24,746	\$27,080
Equity loss	(672)	(138)
Distributions to partners	(1,655)	(2,196)
Balance, end of period	\$22,419	\$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	September 30, 2019	December 31, 2018
Real estate property	\$48,500	\$51,550
Current assets	585	930
Total assets	49,085	52,480
Non-current liabilities	(7)	(25,331)
Current liabilities	(26,659)	(2,403)
Net equity	\$22,419	\$24,746

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue from real estate property	\$1,585	\$1,577	\$4,789	\$4,756
Property operating expenses	(533)	(532)	(1,561)	(1,530)
Net operating income	1,052	1,045	3,228	3,226
Interest and other	(248)	(259)	(748)	(776)
Fair value losses on real estate property	(547)	(1,011)	(3,152)	(2,409)
Net income/(loss)	\$257	(\$225)	(\$672)	\$41

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 September 30, 2019, the property was valued using a discount rate of 7.3% (December 31, 2018 – 7.3%), a terminal cap rate of 6.3% (December 31, 2018 – 6.3%) and a stabilized cap rate of 6.0% (December 31, 2018 – 6.0%). The stabilized annual net operating income as at September 30, 2019, was \$3,287 (December 31, 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 condensed consolidated financial statements.

Jointly Controlled Operations	Location	Property Type	Trust's Ownership Share	
			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%
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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 September 30, 2019 and December 31, 2018, and the results of operations for the three and nine months ended September 30, 2019 and 2018:

As at			September 30, 2019	December 31, 2018
Assets			\$508,045	\$535,568
Liabilities			\$166,441	\$176,442

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue	\$12,412	\$13,957	\$39,401	\$39,614
Expenses	(7,704)	(8,373)	(23,943)	(24,453)
Income before fair value adjustments	4,708	5,584	15,458	15,161
Fair value losses on real estate properties	(98)	(1,545)	(415)	(3,185)
Net income	\$4,610	\$4,039	\$15,043	\$11,976

NOTE 8
MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	September 30, 2019	December 31, 2018
Mortgages payable before deferred financing costs	\$1,079,978	\$1,110,075
Deferred financing costs	(2,724)	(2,481)
Mortgages payable	\$1,077,254	\$1,107,594
Mortgages payable – non-current	\$943,113	\$913,490
Mortgages payable – current	134,141	194,104
Mortgages payable	\$1,077,254	\$1,107,594
Range of interest rates	2.7% to 5.5%	2.7% to 5.5%
Weighted average term to maturity (years)	4.0	4.1

The aggregate principal repayments and balances maturing on the mortgages payable as at September 30, 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
2019 (remainder of year)	\$9,088	\$16,230	\$25,318	3.9%
2020	35,670	114,493	150,163	4.6%
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%
Thereafter	44,350	252,644	296,994	4.2%
	\$163,332	\$916,646	\$1,079,978	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 September 30, 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	September 30, 2019	December 31, 2018
Convertible debentures – liability	\$170,267	\$170,267
Convertible debentures – accretion	2,434	1,722
Convertible debentures before issue costs	172,701	171,989
Issue costs	(2,424)	(3,175)
Convertible debentures	\$170,277	\$168,814

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

	Interest	Principal	Total
2019	\$3,938	\$—	\$3,938
2020	7,875	—	7,875
2021	7,875	175,000	182,875
	\$19,688	\$175,000	\$194,688

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	September 30, 2019	December 31, 2018
Balance as at December 31, 2018	\$—	\$—
Adoption of IFRS 16 (Note 3)	11,232	—
Lease payments	(610)	—
Interest	524	—
Balance as at September 30, 2019	\$11,146	\$—
Current	\$121	\$—
Non-current	11,025	—
	\$11,146	\$—
Weighted average borrowing rate	6.3%	—%

NOTE 11

BANK INDEBTEDNESS

The Trust has operating lines of credit totalling \$95,000 (December 31, 2018 – \$85,000), which renew annually and are secured by fixed charges on specific properties owned by the Trust.

As at September 30, 2019, the Trust had borrowed \$53,447 (December 31, 2018 – \$67,660) on its credit facilities and issued letters of credit in the amount of \$1,267 (December 31, 2018 – \$1,309) related to these facilities.

The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at September 30, 2019, and December 31, 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 September 30, 2019, approximates fair value.

NOTE 12

REVENUE FROM REAL ESTATE PROPERTIES

Revenue from real estate properties consists of the following:

For the three months ended September 30, 2019	Retail	Office	Industrial	Total
Rental revenue	\$23,551	\$18,144	\$615	\$42,310
CAM recoveries	5,776	7,311	189	13,276
Property tax and insurance recoveries	6,012	4,232	158	10,402
Other ancillary revenue	720	126	11	857
Amortized rents	—	(456)	(26)	(482)
	\$36,059	\$29,357	\$947	\$66,363

For the three months ended September 30, 2018	Retail	Office	Industrial	Total
Rental revenue	\$22,484	\$18,091	\$830	\$41,405
CAM recoveries	5,332	7,369	208	12,909
Property tax and insurance recoveries	5,923	5,527	25	11,475
Other ancillary revenue	798	467	32	1,297
Amortized rents	97	103	(13)	187
	\$34,634	\$31,557	\$1,082	\$67,273

For the nine months ended September 30, 2019	Retail	Office	Industrial	Total
Rental revenue	\$69,236	\$54,410	\$2,271	\$125,917
CAM recoveries	19,137	22,952	580	42,669
Property tax and insurance recoveries	18,697	12,874	586	32,157
Other ancillary revenue	3,010	615	118	3,743
Amortized rents	(5)	(547)	(109)	(661)
	\$110,075	\$90,304	\$3,446	\$203,825

For the nine months ended September 30, 2018	Retail	Office	Industrial	Total
Rental revenue	\$67,996	\$54,165	\$2,454	\$124,615
CAM recoveries	18,290	22,793	651	41,734
Property tax and insurance recoveries	18,682	14,801	545	34,028
Other ancillary revenue	2,799	824	90	3,713
Amortized rents	175	316	(34)	457
	\$107,942	\$92,899	\$3,706	\$204,547

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

NOTE 13
EXPENSES

(a) Property Operating Expenses

Property operating expenses consist of the following:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Repairs and maintenance	\$6,418	\$6,049	\$21,474	\$20,222
Utilities	3,883	3,898	12,300	12,054
Other operating expenses	5,434	4,734	15,479	14,580
	\$15,735	\$14,681	\$49,253	\$46,856

(b) General and Administrative

General and administrative expenses consist of the following:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Trustees' fees and expenses	\$72	\$72	\$212	\$242
Professional and compliance fees	294	381	1,025	1,203
Other administrative expenses	545	595	1,997	2,078
	\$911	\$1,048	\$3,234	\$3,523

NOTE 14
INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Mortgages payable	\$10,929	\$10,957	\$33,058	\$32,518
Amortization of deferred financing costs – mortgages	179	172	486	515
Convertible debentures	1,985	1,985	5,890	5,890
Accretion on convertible debentures, net	231	218	712	673
Amortization of deferred financing costs – convertible debentures	244	230	751	710
Lease liabilities	174	—	524	—
Bank indebtedness	521	330	1,637	1,104
Morguard loan payable and other	378	427	969	788
Capitalized interest	(108)	(336)	(423)	(772)
	\$14,533	\$13,983	\$43,604	\$41,426

NOTE 15

RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

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

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

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

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
Property management fees ¹	\$2,239	\$2,251	\$6,768	\$6,848
Appraisal/valuation fees	90	91	270	271
Information services	55	55	165	165
Leasing fees	621	632	1,797	1,499
Project administration fees	271	305	402	569
Project management fees	179	48	356	262
Risk management fees	90	76	270	226
Internal audit fees	33	36	101	108
Off-site administrative charges	421	459	1,324	1,366
Rental revenue	(50)	(52)	(151)	(155)
	\$3,949	\$3,901	\$11,302	\$11,159

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

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

As at	September 30,	December 31,
	2019	2018
Accounts payable and accrued liabilities, net	\$1,077	\$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 nine months ended September 30, 2019, a gross amount of \$61,500 was advanced from Morguard, and a gross amount of \$31,000 was repaid to Morguard. As at September 30, 2019, \$30,500 remains payable to Morguard (December 31, 2018 – \$nil). For the three months ended September 30, 2019, the Trust incurred interest expense in the amount of \$328 (2018 – \$427) at an average interest rate of 5.00% (2018 – 3.60%). For the nine months ended September 30, 2019, the Trust incurred interest expense in the amount of \$919 (2018 – \$788) at an average interest rate of 4.76% (2018 – 3.60%).

Morguard Loan Receivable

During the nine months ended September 30, 2019, a gross amount of \$10,000 was repaid from Morguard. As at September 30, 2019, there is no loan receivable from Morguard (December 31, 2018 – \$10,000). For the three months ended September 30, 2019, and 2018, the Trust did not earn interest income on loans receivable from Morguard. For the nine months ended September 30, 2019, the Trust earned interest income on loans receivable from Morguard in the amount of \$33 (2018 – \$nil), at an average interest rate of 5.05% (2018 – n/a). 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 three months ended September 30, 2019, the Trust incurred rent expense in the amount of \$52 (2018 – \$51). For the nine months ended September 30, 2019, the Trust incurred rent expense in the amount of \$168 (2018 – \$157).

(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	September 30, 2019	December 31, 2018
Amounts receivable	\$63	\$65
Accounts payable and accrued liabilities	\$447	\$7

(e) Rental Revenue from Morguard (Excluding MIL)

Morguard is a tenant in one of the Trust's properties. For the three months ended September 30, 2019, the Trust earned rental revenue in the amount of \$26 (2018 – \$27). For the nine months ended September 30, 2019, the Trust earned rental revenue in the amount of \$80 (2018 – \$79).

NOTE 16**UNITHOLDERS' EQUITY****(a) Units Outstanding**

The Trust is authorized to issue an unlimited number of units. The following table summarizes the changes in units from January 1, 2018 to September 30, 2019:

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	60,694,053	60,691,729
Distribution Reinvestment Plan	26,778	39,424
Repurchase of units	—	(37,100)
Balance, end of period	60,720,831	60,694,053

Total distributions recorded during the nine months ended September 30, 2019, amounted to \$43,707 or \$0.72 per unit (2018 – \$43,702 or \$0.72 per unit). Included in this amount is a distribution declared on September 16, 2019, in the amount of \$0.08 per unit for the month of September 2019, paid to unitholders on October 15, 2019. On October 15, 2019, the Trust declared a distribution of \$0.08 per unit payable on November 15, 2019.

(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 nine months ended September 30, 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 nine months ended September 30, 2019, the Trust issued 26,778 units under the DRIP (2018 – 26,195 units).

(d) Net Income Per Unit

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net income – basic	\$6,254	\$4,981	\$18,468	\$66,023
Net income – diluted	\$6,254	\$4,981	\$18,468	\$73,296
Weighted average number of units outstanding – basic	60,715	60,713	60,705	60,703
Weighted average number of units outstanding – diluted	60,715	60,713	60,705	74,085
Net income per unit – basic	\$0.10	\$0.08	\$0.30	\$1.09
Net income per unit – diluted	\$0.10	\$0.08	\$0.30	\$0.99

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 September 30, 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 three and nine months ended September 30, 2019, and for the three months ended September 30, 2018, as their inclusion would be anti-dilutive.

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Fair value losses on real estate properties	\$14,928	\$16,867	\$45,210	\$802
Net (income)/loss from equity-accounted investment	(257)	225	672	(41)
Amortized stepped rent	308	(154)	385	(684)
Amortized free rent	96	(105)	42	3
Amortization of deferred financing costs – mortgages	179	172	486	515
Amortization of tenant incentives	78	72	234	224
Amortization of right-of-use asset	21	—	62	—
Amortization of deferred financing costs – convertible debentures	244	230	751	710
Accretion on convertible debentures	231	218	712	673
Proceeds held in trust from sale of real estate properties	—	1,252	—	1,252
	\$15,828	\$18,777	\$48,554	\$3,454

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Amounts receivable	\$4,983	(\$823)	\$4,535	\$425
Prepaid expenses and other	1,673	826	(11,473)	(8,799)
Accounts payable and accrued liabilities	(4,468)	(5,038)	(1,647)	1,840
	\$2,188	(\$5,035)	(\$8,585)	(\$6,534)

Other supplemental cash flow information consists of the following:

Interest paid	\$12,005	\$11,516	\$40,228	\$38,213
Issue of units – DRIP	\$134	\$130	\$326	\$346

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 September 30, 2019, committed capital expenditures in the next 12 months are estimated at \$50,600.

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	September 30, 2019	December 31, 2018
Mortgages payable	8	\$1,077,254	\$1,107,594
Convertible debentures	9	170,277	168,814
Bank indebtedness	11	53,447	67,660
Morguard loan payable	15(b)	30,500	—
Cash		(10,474)	(10,652)
Morguard loan receivable	15(b)	—	(10,000)
Unitholders' equity		1,555,501	1,580,414
		\$2,876,505	\$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	Borrowing Limits	September 30, 2019	December 31, 2018
Fixed-rate debt to gross book value of total assets	N/A	42.2%	42.8%
Floating-rate debt to gross book value of total assets	15%	2.8%	2.3%
	60%	45.0%	45.1%

As at September 30, 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 20

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Trust's financial assets and liabilities comprise cash, amounts receivable, accounts payable and accrued liabilities, bank indebtedness, 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 September 30, 2019.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using September 30, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at September 30, 2019, of the mortgages payable has been estimated at \$1,110,475 (December 31, 2018 – \$1,126,796) compared with the carrying value before deferred financing costs of \$1,079,978 (December 31, 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 September 30, 2019, of the Convertible Debentures has been estimated at \$176,750 (December 31, 2018 – \$168,000) compared with the carrying value before deferred financing costs of \$172,701 (December 31, 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:

As at	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Income producing properties	\$—	\$—	\$2,843,894	\$—	\$—	\$2,858,255
Properties under development	\$—	\$—	\$16,622	\$—	\$—	\$22,887
Held for development	\$—	\$—	\$37,150	\$—	\$—	\$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.

NOTE 21

SEGMENTED INFORMATION

IFRS 8, "Operating Segments", requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision-makers for the purpose of allocating resources to the segment and assessing its performance. The Trust has applied judgment by aggregating its operating segments according to the nature of the property operations. Such judgment considers the nature of operations, types of customers and an expectation that operating segments within a reportable segment have similar long-term economic characteristics. As at September 30, 2019, the Trust has the following three reportable segments: retail, office and industrial.

Business Segments

For the three months ended September 30, 2019	Retail	Office	Industrial	Total
Revenue from real estate properties	\$36,059	\$29,357	\$947	\$66,363
Property operating expenses	(8,609)	(6,920)	(206)	(15,735)
Property taxes	(7,359)	(4,500)	(166)	(12,025)
Property management fees	(1,241)	(951)	(24)	(2,216)
Net operating income	\$18,850	\$16,986	\$551	\$36,387

For the three months ended September 30, 2018	Retail	Office	Industrial	Total
Revenue from real estate properties	\$34,634	\$31,557	\$1,082	\$67,273
Property operating expenses	(7,751)	(6,685)	(245)	(14,681)
Property taxes	(7,480)	(5,665)	(29)	(13,174)
Property management fees	(1,195)	(989)	(34)	(2,218)
Net operating income	\$18,208	\$18,218	\$774	\$37,200

For the three months ended September 30, 2019	Retail	Office	Industrial	Total
Additions to real estate properties	\$13,120	\$1,126	\$130	\$14,376
Fair value (losses)/gains on real estate properties	(\$4,513)	(\$10,969)	\$554	(\$14,928)

For the three months ended September 30, 2018	Retail	Office	Industrial	Total
Additions to real estate properties	\$13,305	\$3,195	\$62	\$16,562
Fair value (losses)/gains on real estate properties	(\$7,476)	(\$9,543)	\$152	(\$16,867)

For the nine months ended September 30, 2019	Retail	Office	Industrial	Total
Revenue from real estate properties	\$110,075	\$90,304	\$3,446	\$203,825
Property operating expenses	(26,479)	(22,178)	(596)	(49,253)
Property taxes	(22,584)	(13,525)	(579)	(36,688)
Property management fees	(3,799)	(2,790)	(91)	(6,680)
	\$57,213	\$51,811	\$2,180	\$111,204

For the nine months ended September 30, 2018	Retail	Office	Industrial	Total
Revenue from real estate properties	\$107,942	\$92,899	\$3,706	\$204,547
Property operating expenses	(24,625)	(21,480)	(751)	(46,856)
Property taxes	(22,806)	(15,870)	(560)	(39,236)
Property management fees	(3,712)	(2,928)	(107)	(6,747)
	\$56,799	\$52,621	\$2,288	\$111,708

	Retail	Office	Industrial	Total
As at September 30, 2019				
Real estate properties	\$1,676,476	\$1,180,450	\$40,740	\$2,897,666
Mortgages payable (based on collateral)	\$616,859	\$460,395	\$—	\$1,077,254
For the nine months ended September 30, 2019				
Additions to real estate properties	\$25,189	\$7,582	\$263	\$33,034
Fair value (losses)/gains on real estate properties	(\$34,764)	(\$10,546)	\$100	(\$45,210)

	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 nine months ended September 30, 2018				
Additions to real estate properties	\$40,794	\$8,202	\$442	\$49,438
Fair value (losses)/gains on real estate properties	(\$6,661)	\$4,316	\$1,543	(\$802)