MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

2019 FOURTH QUARTER MORGUARD REIT

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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 consolidated financial statements and the accompanying notes for the year ended December 31, 2019, and 2018.

The Trust's consolidated financial statements and the accompanying notes for the year ended December 31, 2019, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These 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 February 13, 2020.

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"). The 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. The Trust defines ACFO as cash flow from operating activities as per the 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 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 X). 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 February 13, 2020.

SUMMARY OF SELECTED ANNUAL INFORMATION

The selected annual information highlights certain key metrics for the Trust over the most recently completed five years. 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. These items along with the ongoing financing activities for the existing portfolio can dramatically affect the results.

SUMMARY OF SELECTED ANNUAL INFORMATION

In thousands of dollars, except per unit amounts	2019	2018	2017	2016	2015
Revenue from real estate properties	**$273,074**	$276,473	$278,754	$280,726	$290,982
Net operating income	**149,961**	152,078	157,025	160,500	165,930
Fair value losses on real estate properties	**(73,850)**	(18,602)	(31,225)	(51,643)	(78,977)
Net income	**14,840**	73,015	67,306	57,207	26,617
Funds from operations	**90,894**	94,992	100,766	113,500	106,385
Adjusted funds from operations [3,4]	**66,063**	69,394	74,983	87,091	79,208
Net income – basic	**$0.24**	$1.20	$1.11	$0.94	$0.43
Net income – diluted	**$0.24**	$1.12	$1.05	$0.93	$0.43
Funds from operations – basic	**$1.50**	$1.56	$1.66	$1.87	$1.72
Funds from operations – diluted	**$1.43**	$1.48	$1.57	$1.81	$1.67
Adjusted funds from operations – basic [3,4]	**$1.09**	$1.14	$1.24	$1.43	$1.28
Adjusted funds from operations – diluted [3,4]	**$1.07**	$1.12	$1.20	$1.41	$1.27
Cash distributions per unit	**$0.96**	$0.96	$0.96	$0.96	$0.96
Payout ratio – Adjusted funds from operations	**88.1%**	84.2%	77.4%	67.1%	75.0%
Weighted average number of units as at year-end (in thousands)					
Basic	**60,711**	60,705	60,622	60,750	61,779
Diluted	**69,289**	69,283	69,200	66,780	67,876
Balance sheets					
Total assets	**$2,937,341**	$2,978,573	$2,921,091	$3,034,190	$2,920,155
Total debt	**$1,352,545**	$1,349,724	$1,306,710	$1,435,735	$1,325,240
Total equity	**$1,537,468**	$1,580,414	$1,565,591	$1,555,183	$1,556,140
Gross leasable area as at year-end (in thousands of square feet) [1]					
Retail	**4,778**	4,629	4,793	4,788	4,777
Office	**3,240**	3,240	3,241	3,244	3,365
Industrial	**292**	534	534	534	534
Total	**8,310**	8,403	8,568	8,566	8,676
Occupancy as at year-end (%) [2]					
Retail	**95.1%**	94.7%	96.6%	96.1%	97.3%
Office	**91.6%**	92.9%	93.1%	96.5%	96.9%
Industrial	**90.7%**	91.7%	98.0%	97.7%	97.1%
Total	**93.5%**	93.8%	95.3%	96.4%	97.1%

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
4. Restated in accordance with REALpac white paper on FFO and AFFO effective January 1, 2017. The restatement required the inclusion of the one-time Target Corporation settlement of $11.3 million, finalized in 2016.

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 58.48% of the outstanding units as at December 31, 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 December 31, 2019, the Trust owned a diversified real estate portfolio of 48 retail, office and industrial properties consisting of approximately 8.5 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 Érables, in Quebec.

PORTFOLIO COMPOSITION BY ASSET TYPE AND LOCATION

	Retail		Office		Industrial		Total		
Location	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	Number of Properties	GLA (000s)	%
British Columbia	2	539	3	600	—	—	5	1,139	14%
Alberta	5	821	9	1,169	—	—	14	1,990	24%
Saskatchewan	1	518	—	—	—	—	1	518	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	**4,701**	**21**	**3,197**	**4**	**292**	**44**	**8,190**	**100%**
IPP held for development	2	77	1	43	—	—	3	120	
Income producing properties	**21**	**4,778**	**22**	**3,240**	**4**	**292**	**47**	**8,310**	
Equity-accounted investment	—	—	1	152	—	—	1	152	
Grand Total	**21**	**4,778**	**23**	**3,392**	**4**	**292**	**48**	**8,462**	
% [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 December 31, 2019, the Trust's enclosed regional centres portfolio totalled 3.5 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 3.5 million square feet of GLA is 0.4 million square feet of area either held for, or under, development.

COMMUNITY STRIP CENTRES OVERVIEW

At December 31, 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 December 31, 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 December 31, 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 December 31, 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 years ended December 31, 2019, 2018 and 2017. This financial data is derived from the Trust's consolidated statements which are prepared in accordance with IFRS.

SELECTED FINANCIAL INFORMATION

For the year ended December 31,	2019	2018	2017	% Change 2019/2018	% Change 2018/2017
Revenue from real estate properties	**$273,074**	$276,473	$278,754	(1.2%)	(0.8%)
Property operating expenses	**(66,800)**	(64,137)	(62,218)	4.2%	3.1%
Property taxes	**(47,266)**	(51,083)	(50,345)	(7.5%)	1.5%
Property management fees	**(9,047)**	(9,175)	(9,166)	(1.4%)	0.1%
Net operating income	**149,961**	**152,078**	**157,025**	**(1.4%)**	**(3.2%)**
Interest expense	**(58,006)**	(55,648)	(55,087)	4.2%	1.0%
General and administrative	**(4,271)**	(4,781)	(4,517)	(10.7%)	5.8%
Other items	**(38)**	106	179	(135.8%)	(40.8%)
Fair value losses on real estate properties	**(73,850)**	(18,602)	(31,225)	297.0%	(40.4%)
Net income/(loss) from equity-accounted investment	**1,044**	(138)	931	(856.5%)	(114.8%)
Net income	**$14,840**	**$73,015**	**$67,306**	**(79.7%)**	**8.5%**
Net income per unit – basic	**$0.24**	$1.20	$1.11	(80.0%)	8.1%
Funds from operations per unit – basic	**$1.50**	$1.56	$1.66	(3.8%)	(6.0%)
Adjusted funds from operations per unit – basic	**$1.09**	$1.14	$1.24	(4.4%)	(8.1%)

THREE-YEAR CONSOLIDATED OPERATING HIGHLIGHTS

Revenue from real estate properties includes contracted rent from tenants along with recoveries of property expenses (including property taxes). Revenue for the year ended December 31, 2019, decreased 1.2% to $273.1 million from $276.5 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.

Property operating expenses for the year ended December 31, 2019, increased 4.2% to $66.8 million from $64.1 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 over 2018 and 2019.

Net operating income for the year ended December 31, 2019, declined 1.4% as compared to 2018. This decline was from two of the three properties which lost their Sears tenancy late in 2017. Net operating income for the year ended December 31, 2018, declined 3.2% as compared to 2017. This decline was attributed to the loss of income from the closure of the three anchor premesis formerly leased to Sears in late 2017 and the decline in the Alberta office market.

Interest expense for the year ended December 31, 2019, increased 4.2% to $58.0 million from $55.6 million for the same period in 2018 due to $0.7 million in interest expense incurred on lease liabilities from the new IFRS 16 "Leases" guidance, as well as a decline of $0.5 million in capitalized interest due to fewer development projects ongoing.

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:

For the year ended December 31,	2019	2018	2017
Retail	**($57,497)**	($46,477)	($16,944)
Office	**(18,705)**	23,664	(13,836)
Industrial	**2,352**	4,211	(445)
	($73,850)	**($18,602)**	**($31,225)**

Reported net income for year ended December 31, 2019, was $14.8 million as compared to $73.0 million in 2018, and $67.3 million in 2017. This change was attributed to the fair value losses recorded in 2019.

NET OPERATING INCOME BY ASSET TYPE AND LOCATION

The following is a geographical breakdown of the net operating income for the year ended December 31, 2019.

	Retail		Office		Industrial		Total		
Location	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	Number of Properties	NOI (000s)	%
British Columbia	2	$8,059	3	$13,057	—	$—	5	$21,116	14%
Alberta	5	10,868	9	30,862	—	—	14	41,730	28%
Saskatchewan	1	8,236	—	—	—	—	1	8,236	6%
Manitoba	3	13,344	—	—	—	—	3	13,344	9%
Ontario	8	36,856	8	17,442	4	1,921	20	56,219	38%
Quebec	—	—	1	6,767	—	—	1	6,767	5%
	19	77,363	21	68,128	4	1,921	44	147,412	**100%**
IPP held for development	2	1,240	1	573	—	(57)	3	1,756	
Income producing properties	**21**	**78,603**	**22**	**68,701**	**4**	**1,864**	**47**	**149,168**	
Properties held for sale/sold	—	—	—	—	—	793	—	793	
Total real estate properties	**21**	**78,603**	**22**	**68,701**	**4**	**2,657**	**47**	**149,961**	
Equity-accounted investment	—	—	1	4,281	—	—	1	4,281	
Grand Total	**21**	**$78,603**	**23**	**$72,982**	**4**	**$2,657**	**48**	**$154,242**	
% [1]		**53%**		**46%**		**1%**		**100%**	

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

COMPARATIVE NET OPERATING INCOME BY ASSET TYPE

	Year Ended December 31,		
	2019	2018	%
Enclosed regional centres	**$55,070**	$57,576	(4.4%)
Community strip centres	**23,533**	21,162	11.2%
Subtotal – retail	**78,603**	78,738	(0.2%)
Single-/dual-tenant buildings	**54,137**	54,085	0.1%
Multi-tenant buildings	**14,564**	16,326	(10.8%)
Subtotal – office	**68,701**	70,411	(2.4%)
Industrial	**2,657**	2,929	(9.3%)
Net operating income	**$149,961**	$152,078	(1.4%)

The Trust is pleased to report that the following retail development projects have been completed in 2019 and 2018:

Property	Portfolio	New GLA	Redeveloped GLA	Project Cost	Date	Comments
Shoppers Mall	Enclosed regional centres	13,000	—	$5,237	Q2 2018	Construction of new freestanding pad space for Cara brand restaurants
Market Square	Community strip centres	9,700	—	4,885	Q3 2018	Construction of new freestanding pad space
Cambridge Centre	Enclosed regional centres	—	126,800	27,156	Q3 2018	Anchor tenant remerchandising of former Target space for Marshalls, Kingpin Cambridge, Sport Chek and Indigo
Shoppers Mall	Enclosed regional centres	—	34,000	9,958	Q4 2018	Anchor tenant remerchandising of remaining former Target space for Shoppers Drug Mart and Ardene
Pine Centre Mall	Enclosed regional centres	6,800	—	3,461	Q1 2019	Construction of new freestanding pad space
Parkland Mall	Enclosed regional centres	—	40,600	8,345	Q1 2019	Anchor tenant remerchandising of former Safeway space
The Centre	Enclosed regional centres	29,500	—	9,949	Q4 2019	Construction of new freestanding pad space for Cineplex Odeon
		59,000	**201,400**	**$68,991**		

RETAIL PROPERTIES – NET OPERATING INCOME

	Year Ended December 31,		
	2019	2018	%
Revenue from real estate properties	**$148,140**	$147,333	0.5%
Property operating expenses	**(35,413)**	(33,617)	5.3%
Property taxes	**(28,988)**	(29,910)	(3.1%)
Property management fees	**(5,136)**	(5,068)	1.3%
Net operating income	**$78,603**	$78,738	(0.2%)

The Trust's retail properties NOI for the year ended December 31, 2019, was $78.6 million versus $78.7 million for the same period ended 2018, a decrease of $0.1 million.

OFFICE PROPERTIES – NET OPERATING INCOME

	Year Ended December 31,		
	2019	2018	%
Revenue from real estate properties	**$120,606**	$124,159	(2.9%)
Property operating expenses	**(30,565)**	(29,463)	3.7%
Property taxes	**(17,553)**	(20,321)	(13.6%)
Property management fees	**(3,787)**	(3,964)	(4.5%)
Net operating income	**$68,701**	$70,411	(2.4%)

The Trust's office properties NOI for the year ended December 31, 2019, was $68.7 million versus $70.4 million for the same period ended 2018. The unfavourable variance of $1.7 million is mainly the result of increased vacancy costs of $0.8 million, primarily in Alberta, coupled with decreased stepped rents of $0.9 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

	Year Ended December 31,		
	2019	2018	%
Revenue from real estate properties	**$4,328**	$4,981	(13.1%)
Property operating expenses	**(822)**	(1,057)	(22.2%)
Property taxes	**(725)**	(852)	(14.9%)
Property management fees	**(124)**	(143)	(13.3%)
Net operating income	**$2,657**	$2,929	(9.3%)

The Trust's industrial properties NOI for the year ended December 31, 2019, was $2.7 million versus $2.9 million for the same period ended 2018. The decrease of $0.3 million is the result of the sale of 825 Des Érables 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 year ended December 31,	**2019**	2018	Variance	%
Enclosed regional centres (retail)	**$51,832**	$55,791	($3,959)	(7.1%)
Community strip centres (retail)	**21,849**	21,896	(47)	(0.2%)
Single-/dual-tenant buildings (office)	**53,995**	53,438	557	1.0%
Multi-tenant buildings (office)	**14,366**	15,452	(1,086)	(7.0%)
Industrial properties	**1,823**	1,579	244	15.5%
Net operating income – same assets	**143,865**	148,156	(4,291)	(2.9%)
Area under development	**3,345**	1,285	2,060	160.3%
Real estate properties held for development/held for sale/sold	**2,549**	1,363	1,186	87.0%
Lease cancellation fees	**791**	966	(175)	(18.1%)
Stepped rents	**(404)**	839	(1,243)	(148.2%)
Other	**(185)**	(531)	346	(65.2%)
Net operating income per the statement of income	**$149,961**	$152,078	($2,117)	(1.4%)

LEASING ACTIVITY

The table below provides a summary of the leasing activity for the year ended December 31, 2019.

For the year ended December 31, 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	314,182	65,856	73,784	143,591	16,872	614,285
Average contract rent per SF	$18.12	$21.28	$27.25	$16.08	$5.96	$18.82
EARLY TERMINATIONS:						
Square feet	66,858	7,598	15,382	20,638	16,951	127,427
Average contract rent per SF	$31.90	$26.85	$16.49	$18.46	$6.98	$24.44
RENEWALS:						
Square feet	(209,838)	(45,784)	(64,013)	(64,494)	(8,373)	(392,502)
Average contract rent per SF	$15.96	$22.15	$24.24	$14.42	$6.03	$17.68
Retention rate	67%	70%	87%	45%	50%	64%
NEW LEASING:						
Square feet	(225,338)	(24,275)	(14,982)	(66,559)	(42,596)	(373,750)
Average contract rent per SF	$23.87	$24.04	$18.52	$14.19	$7.03	$20.02
OTHER ADJUSTMENTS:						
Square feet	47,353	(9,869)	—	—	—	37,484
Ending vacancy (SF)	187,377	24,657	46,752	223,079	27,275	509,140
Ending occupancy	93.8%	98.0%	97.9%	77.6%	90.7%	93.5%

LEASE PROFILE

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
2020	833,791	$26.46	220,909	$23.65	7,370	$11.44	1,062,070	$25.69
2021	880,505	14.31	395,448	21.50	71,302	7.77	1,347,255	16.12
2022	475,452	26.21	238,610	19.20	16,580	10.20	730,642	23.55
2023	437,270	25.72	264,098	16.94	48,692	7.01	750,060	21.41
Thereafter	1,449,668	25.27	1,808,918	24.83	121,112	7.10	3,379,698	24.38
Current vacancy	212,034	—	269,831	—	27,275	—	509,140	—
Total	**4,288,720**	**$23.29**	**3,197,814**	**$23.12**	**292,331**	**$7.58**	**7,778,865**	**$22.63**

Weighted average remaining lease term (years)	4.21	5.01	3.63	4.51

Lower weighted average contract rent for the year 2021 (retail) is the result of anchor tenant lease maturities. This amounts to 552,194 square feet at a weighted average contract rate of $6.40. It is expected that these anchor tenants will exercise their options to renew.

2020 EXPIRIES BY PROVINCE (NET OF COMMITTED RENEWALS)

	Retail		Office		Industrial		
Province	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	SF	Weighted Average Contract Rent	Total
British Columbia	1,610	$39.59	263	$15.00	—	$—	1,873
Alberta	115,509	26.84	73,983	16.79	—	—	189,492
Saskatchewan	112,241	17.97	—	—	—	—	112,241
Manitoba	91,113	29.25	—	—	—	—	91,113
Ontario	513,318	27.84	96,290	24.67	7,370	11.44	616,978
Quebec	—	—	50,373	31.80	—	—	50,373
	833,791	**$26.46**	**220,909**	**$23.65**	**7,370**	**$11.44**	**1,062,070**

CHANGES IN GLA

The table below provides a summary of the changes in GLA for the year ended December 31, 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	2	—	**2**	—	—	**—**	**—**	**2**
Cambridge Centre – Sears	138	—	**138**	—	—	**—**	**—**	**138**
Disposition – 825 Des Érables	—	—	**—**	—	—	**—**	**(242)**	**(242)**
Other	9	—	**9**	—	—	**—**	**—**	**9**
GLA – closing balance – December 31, 2019	**3,454**	**1,324**	**4,778**	**2,246**	**994**	**3,240**	**292**	**8,310**
Area under/held for development/sale	(411)	(77)	**(488)**	(43)	—	**(43)**	**—**	**(531)**
GLA for purposes of occupancy	**3,043**	**1,247**	**4,290**	**2,203**	**994**	**3,197**	**292**	**7,779**
Occupied GLA	**2,856**	**1,222**	**4,078**	**2,156**	**771**	**2,927**	**265**	**7,270**
Occupied GLA (%)	**93.8%**	**98.0%**	**95.1%**	**97.9%**	**77.6%**	**91.6%**	**90.7%**	**93.5%**

CORPORATE ITEMS

INTEREST EXPENSE

Interest expense totalled $58.0 million for the year ended December 31, 2019, compared to $55.6 million for the same period in 2018. The components of interest expense are as follows:

INTEREST EXPENSE

	Year Ended December 31,		
	2019	2018	%
Mortgages payable	**$43,864**	$43,774	0.2%
Amortization of deferred financing costs – mortgages	**658**	697	(5.6%)
Convertible debentures	**7,875**	7,875	—%
Accretion on convertible debentures, net	**944**	891	5.9%
Amortization of deferred financing costs – convertible debentures	**995**	940	5.9%
Lease liabilities	**697**	—	—%
Bank indebtedness	**2,154**	1,502	43.4%
Morguard loan payable and other	**1,382**	981	40.9%
Capitalized interest	**(563)**	(1,012)	(44.4%)
	$58,006	**$55,648**	**4.2%**

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. Capitalized interest has declined by $0.5 million due to fewer development projects ongoing, compared to the same period in 2018.

FAIR VALUE (LOSSES)/GAINS ON REAL ESTATE PROPERTIES

For the year ended December 31, 2019, the Trust recorded fair value losses on real estate properties of $73.9 million, versus $18.6 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

For the year ended December 31,	2019	2018
Retail	**($57,497)**	($46,477)
Office	**(18,705)**	23,664
Industrial	**2,352**	4,211
	($73,850)	**($18,602)**

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 6.4% (December 31, 2018 – 6.1%). The total stabilized annual net operating income as at December 31, 2019, was $171,345 (December 31, 2018 – $167,197).

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

STABILIZED CAPITALIZATION RATES

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

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

DISCOUNT AND TERMINAL CAPITALIZATION RATES

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

Excluded from the above analysis is a retail property located in British Columbia where the highest and best use is a redevelopment to mixed residential and commercial use. As at December 31, 2019, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent land sales with comparable redevelopment potential.

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in net operating income, with a lower capitalization rate resulting in a greater impact to the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points, the value of the income producing properties as at December 31, 2019, would decrease by $101,411 or increase by $109,698, respectively.

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

SENSITIVITY ANALYSIS

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

NET INCOME FROM EQUITY-ACCOUNTED INVESTMENT

For the year ended December 31, 2019, the Trust generated $1.0 million of income from its equity-accounted investment compared to $0.1 million in losses for the same year ended December 31, 2018. The favourable variance of $1.2 million is largely the result of the recorded loss from fair value on the investment of $2.2 million in 2019, versus a loss of $3.4 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 years ended December 31, 2019, 2018 and 2017.

ACTUAL PRODUCTIVE CAPACITY MAINTENANCE EXPENDITURES

	Year Ended December 31,		
	2019	2018	2017
Leasing commissions	**$3,742**	$2,332	$3,704
Tenant allowances	**5,803**	7,091	4,210
Total leasing costs	**9,545**	9,423	7,914
Capital expenditures recoverable from tenants	**12,946**	13,453	14,832
Capital expenditures non-recoverable from tenants	**322**	205	295
Total capital expenditures	**13,268**	13,658	15,127
Total PCME	**22,813**	23,081	23,041
Discretionary capital expenditures	**169**	655	2,468
Total leasing costs and capital expenditures	**$22,982**	$23,736	$25,509
Total PCME	**$22,813**	$23,081	$23,041
Normalized PCME	**25,000**	25,000	25,000
Shortfall between total PCME and normalized PCME	**$2,187**	$1,919	$1,959

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	Year Ended December 31, 2019	2018	%
Net income	**$14,840**	$73,015	(79.7%)
Adjustments:			
Fair value losses on real estate properties [1]	**76,087**	21,977	246.2%
Amortization of right-of-use assets	**83**	—	—%
Payment of lease liabilities, net	**(116)**	—	—%
Funds from operations – basic	**90,894**	94,992	(4.3%)
Interest expense on convertible debentures	**7,875**	7,875	—%
Funds from operations – diluted	**$98,769**	$102,867	(4.0%)
Funds from operations – basic	**$90,894**	$94,992	(4.3%)
Adjustments:			
Amortized stepped rents [1]	**169**	(598)	(128.3%)
Normalized PCME	**(25,000)**	(25,000)	—%
Adjusted funds from operations – basic	**66,063**	69,394	(4.8%)
Interest expense on convertible debentures	**7,875**	7,875	—%
Adjusted funds from operations – diluted	**$73,938**	$77,269	(4.3%)
FUNDS FROM OPERATIONS PER UNIT			
Basic	**$1.50**	$1.56	(3.8%)
Diluted [2]	**$1.43**	$1.48	(3.4%)
ADJUSTED FUNDS FROM OPERATIONS PER UNIT			
Basic	**$1.09**	$1.14	(4.4%)
Diluted [2]	**$1.07**	$1.12	(4.5%)
DISTRIBUTIONS			
Cash distributions per unit	**$0.96**	$0.96	—%
Distributions paid as a percentage of AFFO per unit – basic	**88.1%**	84.2%	4.6%
WEIGHTED AVERAGE UNITS OUTSTANDING (IN THOUSANDS)			
Basic	**60,711**	60,705	—%
Diluted [2]	**69,289**	69,283	—%

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 REALpac.

ADJUSTED CASH FLOW FROM OPERATIONS

	Year Ended December 31,		
	2019	2018	%
Cash provided by operating activities	**$89,358**	$93,474	(4.4%)
Adjustments:			
Adjustment to working capital changes for ACFO [1]	**282**	221	27.6%
Normalized PCME	**(25,000)**	(25,000)	—%
Actual additions to tenant incentives and leasing commissions	**3,955**	2,452	61.3%
Amortization of deferred financing costs	**(1,654)**	(1,637)	1.0%
Payment of lease liabilities	**(116)**	—	—%
ACFO from equity-accounted investment	**1,419**	1,539	(7.8%)
Adjusted cash flow from operations – basic	**68,244**	71,049	(3.9%)
Interest expense on convertible debentures	**7,875**	7,875	—%
Adjusted cash flow from operations – diluted	**$76,119**	$78,924	(3.6%)
Adjusted cash flow from operations – basic	**$68,244**	$71,049	(3.9%)
Cash distributions	**57,786**	57,781	—%
(Shortfall)/excess adjusted cash flow from operations over cash distributions	**$10,458**	$13,268	(21.2%)

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

	Year Ended December 31,		
	2019	2018	%
Development accruals	**$700**	$2,176	(67.8%)
Prepaid realty taxes and insurance	**827**	(495)	(267.1%)
Interest payable and receivable	**164**	(152)	(207.9%)
Insurance claims	**(1,409)**	(1,308)	7.7%
Adjustment to working capital changes for ACFO	**282**	221	27.6%
Net change in non-cash operating assets and liabilities as per the financial statements	**64**	(195)	(132.8%)
Net working capital changes included in ACFO	**$346**	$26	1,230.8%

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.

FOURTH QUARTER OVERVIEW

For the three months ended December 31,	2019	2018	% Change
Revenue from real estate properties	**$69,249**	$71,926	(3.7%)
Property operating expenses	**(17,547)**	(17,281)	1.5%
Property taxes	**(10,578)**	(11,847)	(10.7%)
Property management fees	**(2,367)**	(2,428)	(2.5%)
Net operating income	**38,757**	**40,370**	**(4.0%)**
Interest expense	**(14,402)**	(14,222)	1.3%
General and administrative	**(1,037)**	(1,258)	(17.6%)
Amortization expense	**(21)**	—	—%
Other income	**(1)**	81	(101.2%)
Fair value losses on real estate properties	**(28,640)**	(17,800)	60.9%
Net loss from equity-accounted investment	**1,716**	(179)	(1,058.7%)
Net income/(loss)	**($3,628)**	**$6,992**	**(151.9%)**
Net income/(loss) per unit – basic	**($0.06)**	$0.12	(150.0%)
Net income/(loss) per unit – diluted [1]	**($0.06)**	$0.12	(150.0%)
Funds from operations per unit – basic	**$0.40**	$0.42	(4.8%)
Funds from operations per unit – diluted	**$0.38**	$0.40	(5.0%)
Adjusted funds from operations per unit – basic	**$0.29**	$0.32	(9.4%)
Adjusted funds from operations per unit – diluted	**$0.28**	$0.32	(12.5%)

1. The calculation of net income/(loss) per unit – diluted excludes the impact of the convertible debentures for the three months ended December 31, 2019, and 2018, as their inclusion would be anti-dilutive.

Revenue from real estate properties includes contracted rent from tenants along with recoveries of property expenses. Revenue for the three months ended December 31, 2019, decreased 3.7% to $69.2 million from $71.9 million for the same period in 2018. This decrease is primarily due to reduced recoveries of property taxes in certain properties as well as a decline in rent revenue from the Trust's Alberta office properties and two of the three properties which lost their Sears tenancy in late 2017.

Property operating expenses for the three months ended December 31, 2019, increased 1.5% to $17.5 million from $17.3 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.

Net operating income for the three months ended December 31, 2019, declined $1.6 million as compared to 2018. This decline was from two of the three properties which lost their Sears tenancy late in 2017.

Interest expense for the three months ended December 31, 2019, increased 1.3% to $14.4 million from $14.2 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.

The Trust's net loss and comprehensive loss for the three months ended December 31, 2019, was $3.6 million versus net income of $7.0 million for the three months ended December 31, 2018. The decrease of $10.6 million is largely the result of fair value changes. Fair value losses for the three months ended December 31, 2019, were $28.6 million, versus fair value losses of $17.8 million for the three months ended December 31, 2018.

The Trust's basic FFO for the three months ended December 31, 2019, was $24.1 million ($0.40 per unit) versus $25.8 million ($0.42 per unit) for the same three months ended December 31, 2018. This represents a decrease of $1.7 million ($0.02 per unit).

The Trust has the following occupancy statistics for the quarter:

	December 31, 2019	September 30, 2019	% Change
OCCUPANCY			
Retail	**95.1%**	94.6%	0.5%
Office	**91.6%**	91.7%	(0.1%)
Industrial	**90.7%**	90.3%	0.4%
	93.5%	93.3%	0.2%

COMPARATIVE NET OPERATING INCOME BY ASSET TYPE

	Three Months Ended December 31,		
	2019	2018	%
Enclosed regional centres	**$15,529**	$16,478	(5.8%)
Community strip centres	**5,861**	5,461	7.3%
Subtotal – retail	**21,390**	21,939	(2.5%)
Single-/dual-tenant buildings	**13,380**	13,939	(4.0%)
Multi-tenant buildings	**3,510**	3,851	(8.9%)
Subtotal – office	**16,890**	17,790	(5.1%)
Industrial	**477**	641	(25.6%)
Net operating income	**$38,757**	$40,370	(4.0%)

NET OPERATING INCOME – SAME ASSETS

For the three months ended December 31,	2019	2018	Variance	%
Enclosed regional centres	**$14,314**	$15,849	($1,535)	(9.7%)
Community strip centres	**5,403**	5,623	(220)	(3.9%)
Single-/dual-tenant buildings	**13,351**	13,767	(416)	(3.0%)
Multi-tenant buildings	**3,641**	3,788	(147)	(3.9%)
Industrial properties	**504**	294	210	71.4%
Net operating income – same assets	**37,213**	39,321	(2,108)	(5.4%)
Area under development	**1,358**	658	700	106.4%
Real estate properties held for development/held for sale/sold	**473**	318	155	48.7%
Lease cancellation fees	**(10)**	211	(221)	(104.7%)
Stepped rents	**(92)**	40	(132)	(330.0%)
Other	**(185)**	(178)	(7)	3.9%
Net operating income per the statement of income	**$38,757**	$40,370	($1,613)	(4.0%)

PART IV

REAL ESTATE OVERVIEW

The carrying value of the Trust's real estate properties remained unchanged at $2.9 billion at December 31, 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

		Est. GLA						
	Portfolio	New	Under Develop-ment	Total	Est. Project Cost	Spend to Date	Completion Date	Comments
RETAIL								
Pine Centre Mall	Enclosed regional centres	—	112,000	112,000	$16,756	$5,720	Q2 2020	Anchor tenant remerchandising of former Sears space
The Centre	Enclosed regional centres	—	68,000	68,000	5,050	1,416	Q3 2020	Anchor tenant remerchandising of portion of former Target space
The Centre	Enclosed regional centres	—	—	—	19,500	8,287	Q3 2020	Full-scale mall renovation
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		**—**	**394,000**	**394,000**	**$41,306**	**$15,423**		

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	GLA New	GLA Re-developed	GLA Total	GLA Adjust-ment [1]	GLA Income Producing	Date	Total Project Cost	Occupancy % [2]	Comments
RETAIL										
Shoppers Mall	Enclosed regional centres	13,000	—	13,000	—	13,000	Q2 2018	$5,237	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	4,885	100.0%	Construction of new freestanding pad space
Cambridge Centre [3]	Enclosed regional centres	—	134,000	134,000	(7,200)	126,800	Q3 2018	27,156	100.0%	Anchor tenant remerchandising of former Target space for Marshalls, Kingpin Cambridge, Sport Chek and Indigo
Shoppers Mall	Enclosed regional centres	—	46,500	46,500	(12,500)	34,000	Q4 2018	9,958	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	3,461	100.0%	Construction of new freestanding pad space
Parkland Mall	Enclosed regional centres	—	56,500	56,500	(15,900)	40,600	Q1 2019	8,345	58.1%	Anchor tenant remerchandising of former Safeway space
Kingsbury Centre	Community strip centres	—	—	—	—	—	Q1 2019	883	N/A	Facade renovation
The Centre	Enclosed regional centres	29,500	—	29,500	—	29,500	Q4 2019	9,949	100.0%	Construction of new freestanding pad space for Cineplex Odeon
		59,500	**237,000**	**296,500**	**(36,100)**	**260,400**		**$69,874**		

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.

For the year ended December 31, 2019, the projects completed since January 1, 2018, contributed $3.6 million in NOI (incrementally $2.1 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 year ended December 31,	2019	2018	%
Interest coverage ratio [1]	**2.51**	2.60	(3.5%)
Debt service coverage ratio [1]	**1.58**	1.58	—%
Debt ratio [2]	**45.8%**	45.1%	1.6%
Weighted average rates on mortgages	**4.1%**	4.1%	—%
Average term to maturity on mortgages (years)	**3.7**	4.1	(9.8%)
Distributions as a percentage of adjusted funds from operations – basic	**88.1%**	84.2%	4.6%
Unencumbered assets to unsecured debt	**151.2%**	178.6%	(15.3%)
Unencumbered assets	**$313,750**	$312,514	0.4%
Unsecured debt	**$207,500**	$175,000	18.6%

1. See interest and debt service coverage ratio calculations below
2. Debt ratio defined as: Total indebtedness, divided by gross book value of total assets.

INTEREST AND DEBT SERVICE COVERAGE RATIOS

For the year ended December 31,	2019	2018	%
Net income	**$14,840**	$73,015	(79.7%)
Fair value (gains)/losses on real estate properties	**73,850**	18,602	297.0%
Amortization expense	**83**	—	—%
Interest expense	**58,006**	55,648	4.2%
Earnings before items noted above (A)	**146,779**	147,265	(0.3%)
Interest expense	**58,006**	55,648	4.2%
Add back capitalized interest expense	**563**	1,012	(44.4%)
Gross interest expense (B)	**$58,569**	$56,660	3.4%
Interest coverage ratio (A)/(B)	**2.51**	2.60	(3.5%)
Principal instalment repayments	**34,237**	36,333	(5.8%)
Gross interest expense	**58,569**	56,660	3.4%
Debt service (C)	**$92,806**	$92,993	(0.2%)
Debt service coverage ratio (A)/(C)	**1.58**	1.58	—%

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:

For the year ended December 31,	2019	2018	%
Cash provided by operating activities	**$89,358**	$93,474	(4.4%)
Cash used in financing activities	**(57,808)**	(26,754)	116.1%
Cash used in investing activities	**(36,419)**	(70,820)	(48.6%)
Net change in cash	**(4,869)**	(4,100)	18.8%
Cash, beginning of period	**10,652**	14,752	(27.8%)
Cash, end of period	**$5,783**	$10,652	(45.7%)

Cash provided by operating activities for the year ended December 31, 2019, decreased 4.4% to $89.4 million in 2019 from $93.5 million in 2018 mainly due to a decrease in funds from operations.

Cash used in financing activities increased to $57.8 million in 2019 from $26.8 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 $36.4 million in 2019 from $70.8 million in 2018 due to the sale of 825 Des Érables in July of 2019, coupled with an additional $16.7 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 December 31,	2019	%	2018	%
Conventional secured mortgages payable	**$1,070,838**	**79.2%**	$1,110,075	82.3%
Unsecured convertible debentures	**172,933**	**12.8%**	171,989	12.7%
Secured floating rate bank financing	**65,158**	**4.8%**	67,660	5.0%
Lease liabilities	**11,116**	**0.8%**	—	—%
Unsecured floating rate loan payable	**32,500**	**2.4%**	—	—%
Gross debt	**1,352,545**	**100.0%**	1,349,724	100.0%
Less deferred financing costs:				
Mortgages	**(2,490)**		(2,481)	
Convertible debentures	**(2,180)**		(3,175)	
Net debt	**$1,347,875**		$1,344,068	

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 December 31, 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
2020	$130,409	$35,932	$166,341	$—	$65,158	$32,500	$121	$264,120
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
2024	136,860	8,557	145,417	—	—	—	58	145,475
Thereafter	115,784	35,793	151,577	—	—	—	10,523	162,100
	$916,332	**$154,506**	**$1,070,838**	**$175,000**	**$65,158**	**$32,500**	**$11,116**	**$1,354,612**

INTEREST RATES

Year	Mortgages Payable	Debentures Payable	Bank Indebtedness	Revolving Loan	Lease Liabilities	Total Debt
2020	4.51%	—%	4.11%	5.30%	—%	4.40%
2021	4.19%	4.50%	—%	—%	—%	4.35%
2022	3.84%	—%	—%	—%	—%	3.84%
2023	3.74%	—%	—%	—%	7.25%	3.75%
2024	4.38%	—%	—%	—%	—%	4.38%
Thereafter	3.97%	—%	—%	—%	6.22%	4.10%
	4.06%	**4.50%**	**4.11%**	**5.30%**	**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
2020	$130,409	$3,746	$134,155	$410,000	32.7%
2021	153,525	9,004	162,529	502,250	32.4%
2022	171,560	22,613	194,173	289,450	67.1%
2023	208,194	26,794	234,988	441,560	53.2%
2024	136,860	25,315	162,175	326,540	49.7%
Thereafter	115,784	67,034	182,818	459,000	39.8%
	$916,332	**$154,506**	**$1,070,838**	**$2,428,800**	**44.1%**

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 December 31, 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 December 31, 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, which was increased to $75 million as of January 8, 2020.

LIQUIDITY

As at December 31,	2019	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	**(65,158)**	(67,660)
Morguard loan payable outstanding	**(32,500)**	—
Morguard loan receivable outstanding	**—**	10,000
Cash	**5,783**	10,652
Liquidity	**$51,858**	**$86,683**

PART VI

RISKS, UNCERTAINTIES AND OTHER ITEMS

RISKS AND UNCERTAINTIES

All real estate investments are subject to a degree of risk and uncertainty. Income producing property is affected by various factors, including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand particularly affect income property investments. Management attempts to manage these risks through geographic and asset class diversification. At December 31, 2019, the Trust held 48 properties in three assets classes (retail, office and industrial) and located in six provinces.

The Trust is supported by contracted property management, leasing services, capital expenditure administration, information system services activities and risk management administration. 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 and other services are delivered through a management agreement with MIL. MIL also provides advisory and management services to institutional and other investors not related to Morguard or to the Trust.

Property Development, Redevelopment and Renovation Risks

The Trust engages in development and intensification activities with respect to certain properties. It is subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or availability at all; (b) the availability and timely receipt of zoning, occupancy, land use and other regulatory and governmental approvals; (c) the ability to achieve an acceptable level of occupancy upon completion; (d) the potential that the Trust may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (e) the potential that the Trust may expend funds on and devote management time to projects which are not completed; (f) construction or redevelopment costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable; (g) the time required to complete the construction or redevelopment of a project or to lease-up the completed project may be greater than originally anticipated, thereby adversely affecting cash flows and liquidity; (h) the cost and timely completion of construction (including risks beyond the Trust's control, such as weather, labour conditions or material shortages); (i) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; and (j) occupancy rates and rents of a completed project may not be sufficient to make the project profitable.

The above risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation of development activities or the completion of development activities once undertaken. In addition, development projects entail risks that investments may not perform in accordance with expectations and can carry an increased risk of litigation (and its accompanying risks) with contractors, subcontractors, suppliers, partners and others. Any failure by the Trust to effectively manage all development and intensification initiatives may negatively impact the reputation and financial performance of the Trust.

Shift of Retailers from Bricks and Mortar Stores

Shifting consumer preferences toward e-commerce may result in a decrease in the demand for physical space by retail tenants. The failure of the Trust to adapt to changes in the retail landscape, including finding new tenants to replace any lost income stream from existing tenants that reduce the amount of physical space they lease from the Trust could adversely affect the Trust's financial performance.

IT Systems Implementations and Data Management

The Trust and MIL depend on relevant and reliable information for decision-making and financial reporting. As the volume of data being generated and reported by the Trust increases and evolves, MIL will continue to undertake investments in IT systems to store, process and leverage such data.

The failure to successfully migrate to new IT systems, or disruptions which may arise as a result of the transition to new IT systems, could result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the operations of the Trust, which could negatively affect the reputation, operations and financial performance of the Trust.

In addition, any significant loss of data or failure to maintain reliable data could negatively affect the reputation, operations and financial performance of the Trust because management depends on relevant and reliable information for decision-making purposes.

Vendor Management, Partnerships and Third-Party Service Providers
The Trust currently relies on third-party vendors, developers, co-owners and strategic partners to provide the Trust with various services or to complete projects. The lack of an effective process for developing joint venture arrangements or for contract tendering, drafting, review, approval and monitoring may pose a risk for the Trust. The Trust may not be able to negotiate contract terms, service levels and rates that are optimal for the Trust. In addition, co-owners or joint venture partners may fail to fund their share of capital, may not comply with the terms of any governing agreements or may incur reputational damage which could negatively impact the Trust. Inefficient, ineffective or incomplete vendor management/partnership strategies, policies and procedures could impact the Trust's reputation, operations and/or financial performance.

Current Economic Environment
Concerns about the uncertainty over whether the economy will be adversely affected by inflation and the systemic impact of unemployment, volatile energy costs, geopolitical issues and the availability and cost of credit could contribute to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect the Trust's ability to generate revenues, thereby reducing its operating income and earnings. It could also have a material adverse effect on the ability of the Trust's operators to maintain occupancy rates in the properties, which could harm the Trust's financial condition. If these economic conditions transpire, the Trust's tenants may be unable to meet their rental payments and other obligations owing to the Trust, which could have a material adverse effect on the Trust.

These conditions already exist in the Alberta office market (specifically Calgary), which has had vacancies in the range of 25%-35% in recent years. The Trust earns approximately one-half of its office net operating income from Alberta, including its largest tenant overall.

Climate Change
The Trust has approximately one-quarter of its properties in Alberta with a high degree of concentration in Calgary, which is linked to the oil and gas industry. Concerns about climate change have played a role in the downturn of this industry. Continued focus on climate change by lobby and political groups will have lasting impacts on this sector.

The Morguard group has a sustainability program which helps the group structure efforts and act on environmental, social and governance risks and opportunities that are most important to its stakeholders. These major areas of focus are:

- decreasing energy and water use; reducing waste and emissions;
- creating excellence in energy and environmental management that result in green building certifications;
- collecting consistent data that tracks and validates its performance towards its objectives;
- reporting transparency;
- engaging investors, employees and tenants to support its initiatives; and
- driving new sustainability ideas and policies that align with its focus areas

Interest Rate and Financing Risk
The Trust is exposed to financial risks that arise from its indebtedness, including fluctuations in interest rates. Interest rate risk is managed by financing debt at fixed rates with maturities scheduled over a number of years. At December 31, 2019, 92.8% of the Trust's debt was at fixed rates.

As outlined in "Part V – Liquidity and Capital Resources," the Trust has an ongoing requirement to access debt markets to refinance maturing debt as it comes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to the Trust or any terms at all.

The Declaration of Trust permits the Trust to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness the amount of all indebtedness of the Trust is not more than 60% of the gross book value of the Trust's total assets.

The following table provides the Trust's debt ratios compared to the borrowing limits established in the Declaration of Trust:

DEBT RATIOS

As at December 31,	Borrowing Limits	2019	2018
Fixed-rate debt to gross book value of total assets	N/A	**42.5%**	42.8%
Floating-rate debt to gross book value of total assets	15.0%	**3.3%**	2.3%
Total indebtedness to gross book value of total assets	**60.0%**	**45.8%**	45.1%

Credit Risk

Credit risk arises from the possibility that tenants may be unable to fulfil their lease commitments. Management mitigates this risk by ensuring that the Trust's tenant mix is diversified and by limiting the Trust's exposure to any one tenant.

TOP TEN TENANTS

		As at December 31, 2019				
	Tenant	Rental Revenue	# of Locations	GLA (000s)	% of Total GLA	Weighted Average Remaining Lease Term
1	Federal and provincial governments	12.8%	9	859	10.7%	4.4
2	Obsidian Energy Ltd.	11.5%	1	619	7.7%	5.1
3	Canadian chartered banks – Tier 1	5.1%	19	237	2.9%	4.3
4	Bombardier Inc.	3.3%	1	264	3.3%	11.3
5	Wood Group	2.3%	1	145	1.8%	1.0
6	Canadian Tire Corporation Ltd.	2.0%	7	284	3.5%	3.3
7	Loblaw Companies Ltd.	1.6%	8	117	1.5%	4.4
8	GoodLife Fitness Centres	1.5%	5	192	2.4%	11.2
9	Sobeys Inc.	1.5%	3	161	2.0%	8.5
10	HBC	1.3%	3	324	4.0%	1.6
		42.9%	**57**	**3,202**	**39.8%**	**5.2**

Lease Rollover Risk

Lease rollover risk arises from the possibility that the Trust may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management attempts to stagger the lease expiry profile so that the Trust is not faced with disproportionate amounts of space expiring in any one year. Management further mitigates this risk by maintaining a diversified portfolio mix by both asset type and province.

Environmental Risk

The Trust is subject to various federal, provincial and municipal laws relating to the environment. The Trust's ongoing environmental management program includes regular review of tenant business uses and inspections of properties to ensure compliance, as well as appropriate testing by qualified environmental consultants when required. A Phase I environmental site assessment is performed on properties considered for acquisition. The Trust mitigates the cost of remediation by carrying environmental insurance where available.

Unitholder Liability
The Declaration of Trust provides that no unitholder or annuitant under a plan of which a unitholder acts as trustee or carrier will be held to have any personal liability as such, and that no recourse may be had to the private property of any unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the Trust. Only assets of the Trust are intended to be liable and subject to levy or execution.

The following provinces have legislation relating to unitholder liability protection: British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. Certain of these statutes have not yet been judicially considered, and it is possible that reliance on such statutes by a unitholder could be successfully challenged on jurisdictional or other grounds. The Trustees will cause the operations of the Trust to be conducted, with the advice of counsel, in a manner and in such jurisdictions so as to avoid, as far as practicable, any material risk of liability to the unitholders for claims against the Trust. The Trustees will also cause the Trust to carry insurance, to the extent to which they determine to be possible and reasonable, for the benefit of unitholders and annuitants in such amounts as they consider adequate to cover non-contractual or non-excluded liability.

General Uninsured Losses
The Trust has in place blanket comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as from wars or environmental contamination) that are either uninsurable or not insurable on an economically viable basis. The Trust also carries insurance for earthquake risks, where appropriate, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if it is economical to do so. Should an insured or underinsured loss occur, the Trust could lose its investment in, and anticipated profits and cash flows from, one or more of its properties.

Liquidity and Capital Availability Risk
Liquidity risk is the risk that the Trust cannot meet a demand for cash or fund its obligations as they come due. Although a portion of the cash flows generated by the properties is devoted to servicing such outstanding debt, there can be no assurance that the Trust will continue to generate sufficient cash flows from operations to meet interest payments and principal repayment obligations upon an applicable maturity date. If the Trust is unable to meet interest payments and principal repayment obligations, it could be required to renegotiate such payments or issue additional equity or debt or obtain other financing. The failure of the Trust to make or renegotiate interest or principal payments or issue additional equity or debt or obtain other financing could materially adversely affect the Trust's financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to unitholders.

The real estate industry is highly capital intensive. The Trust requires access to capital to fund operating expenses, to maintain its properties, to fund its growth strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although the Trust expects to have access to the existing revolving credit facilities, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, the Trust may not be able to borrow funds due to limitations set forth in the Declaration of Trust. Failure by the Trust to access required capital could have a material adverse effect on its financial condition or results of operations and its ability to make distributions to unitholders.

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of liquidity, by diversifying the Trust's sources of funding, by maintaining a well-diversified debt maturity profile and by actively monitoring market conditions.

Unitholder Taxation
The Trust is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Act, a Trust is not subject to income taxes to the extent that the income for tax purposes in a given year does not exceed the amount distributed to unitholders and deducted by the Trust for tax purposes. The Trustees intend to distribute or designate all taxable income directly earned by the Trust to unitholders of the Trust and to deduct such distributions and designations for income tax purposes.

There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency (the "CRA") respecting mutual fund trusts will not be changed in a manner that adversely affects unitholders.

The Act may impose additional withholding or other taxes on distributions made by the Trust to unitholders who are non-residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. Unitholders who are non-residents should consult their own tax advisers.

The Act contains rules (the "SIFT Rules") that apply to a "specified investment flow-through" ("SIFT") trust or partnership. Under the SIFT rules, certain distributions will not be deductible in computing the SIFT trust's taxable income, and the SIFT trust will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT trust as returns of capital will not be subject to the tax.

The SIFT tax does not apply to a trust that satisfies certain conditions relating to the nature of its income and investments ("the REIT exception"). Although, as of the date hereof, management believes that the Trust will be able to meet the requirements of the REIT exception throughout 2020 and beyond, there can be no assurance that the Trust will be able to qualify for the REIT exception such that the Trust and the unitholders will not be subject to the SIFT Rules in 2020 or future years. If the SIFT Rules apply to the Trust, they may adversely affect the marketability of the units, the amount of cash available for distributions and the after-tax return to investors. The Trust has reviewed its status under the legislation and has determined that it is not subject to this tax as it met the REIT exception at December 31, 2019, and 2018, and throughout the years. Accordingly, no net additional current income tax expense or future income tax assets or liabilities have been recorded in the December 31, 2019, and 2018, consolidated financial statements.

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:

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

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

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

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

(b) Revolving Loan with Morguard

The Trust has a revolving loan agreement with Morguard that provides for borrowings or advances of up to $50,000 ($75,000 as of January 8, 2020). 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 year ended December 31, 2019, a gross amount of $63,500 was advanced from Morguard, and a gross amount of $31,000 was repaid to Morguard. As at December 31, 2019, $32,500 remains payable to Morguard (2018 – $nil). For the year ended December 31, 2019, the Trust incurred interest expense in the amount of $1,277 (2018 – $981) at an average interest rate of 4.68% (2018 – 3.85%).

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

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

(d) Amounts Receivable from and Accounts Payable to Morguard (Excluding MIL)
Other than the revolving loan, the following additional amounts relating to Morguard are included in the balance sheets:

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

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

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 December 31, 2019.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at December 31, 2019, of the mortgages payable has been estimated at $1,093,438 (December 31, 2018 – $1,126,796) compared with the carrying value before deferred financing costs of $1,070,838 (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 December 31, 2019, of the Convertible Debentures has been estimated at $177,188 (December 31, 2018 – $168,000) compared with the carrying value before deferred financing costs of $172,933 (December 31, 2018 – $171,989).

PART VII

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

REAL ESTATE PROPERTIES

Real estate properties include retail, office and industrial properties held to earn rental income (income producing properties) and properties or land that are being constructed or developed for future use as income producing properties. Real estate properties are recorded at fair value, determined based on available market evidence, at the balance sheet date. The Trust determined the fair value of each real estate property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet date, less future cash outflow pertaining to the respective leases. The real estate properties are appraised using a number of approaches that typically include a discounted cash flow analysis, direct capitalization method and direct comparison approach. The discounted cash flow analysis is primarily based on discounting the expected future cash flows, generally over a term of 10 years and including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows.

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

REVENUE RECOGNITION

The computation of cost reimbursements from tenants for realty taxes, insurance and common area maintenance charges is complex and involves a number of judgments, including the interpretation of terms and other tenant lease provisions. Tenant leases are not consistent in dealing with such cost reimbursements, and variations in computations can exist. Adjustments are made throughout the year to these cost recovery revenues based upon the Trust's best estimate of the final amounts to be billed and collected.

The Trust applies judgment about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Trust recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services.

LEASES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Management reports on a quarterly basis the fair value of financial instruments. The fair value of financial instruments approximates amounts at which these instruments could be exchanged between knowledgeable and willing parties. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. Management estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using market rates as at December 31, 2019, for debts of similar terms. The fair value of the convertible debentures is based on their market trading price (TSX: MRT.DB).

PART VIII

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification process project team has documented and assessed the design and effectiveness of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. This undertaking has enabled the Chief Executive Officer and Chief Financial Officer to attest that the design and effectiveness of the internal controls with regard to financial information are effective using the Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework (2013). In order to ensure that the 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.

The Trust's management has evaluated the effectiveness of the Trust's disclosure controls and procedures and, based on such evaluation, has concluded that their design and operation are adequate and effective for the year ended December 31, 2019. The Trust's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that the design and operation are effective for the year ended December 31, 2019.

An information disclosure policy constitutes the framework for the information disclosure process with regard to the annual and interim filings, as well as to 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 IX

OUTLOOK

Canada's commercial property sector generated largely positive aggregate performance patterns in 2019. The overall performance pattern was supported by a moderate economic growth trend, strong employment market conditions and continued retail sales expansion. On aggregate, rental market supply fell significantly short of demand across most regions in most industrial, office and multi-suite residential rental sectors. For the most part, vacancy levels rested at or near a record low in most of the country's largest urban centres. The exception to this general rule was in Calgary and Edmonton's office market. The energy sector malaise continued to erode demand, resulting in record high vacancy and record low rents. At the same time, the region's industrial, retail and multi-suite residential rental markets have exhibited comparatively higher levels of resilience and balance. Retail vacancy levels remained elevated across much of the country, as the sector continued to adjust to structural shifts in the broader industry, including changing shopping habits, increased online shopping, demographic trends and ongoing store closures. The largely positive rental market performance of 2019 supported healthy investment market conditions.

Generally healthy Canadian commercial property investment market characteristics were recorded during the past year. Investment demand outdistanced the supply of properties made available for acquisition. Industrial and multi-suite residential rental properties were the most highly coveted by investors looking to capitalize on their respective rent growth outlooks and strong fundamentals. Office properties were also in demand, given strong track records of performance, cycle-low vacancy levels and rent growth prospects in most regions. Investors were more selective in acquiring retail assets, given an uncertain industry outlook. Despite a slowdown in retail investment activity, transaction volume remained well above the annual average in 2019. On balance, cap rates stabilized although modest downward pressure on high-quality offerings was not uncommon. For many investors, Canada's commercial real estate sector continued to provide attractive yields and defensive characteristics.

Looking ahead to 2020, the Canadian commercial property sector is expected to continue to exhibit stable and positive fundamentals. Some of the cycle's strongest rental market conditions are expected to be sustained in the industrial, office and multi-suite rental sectors. Demand should outpace supply, despite an increase in new developments introduced to various regions in these sectors. Rents should steadily climb, given the demand pressure driven by a moderate economic growth trend. Challenges should continue for Alberta's office market and in the national retail sector. However, the aggregate rental market outlook is healthy. The continued rental market strength should attract investment capital from various sources. Once again, investment demand should outpace the supply of available properties. At a minimum, property values should hold at 2019 levels, as investment performance remains largely income driven. Investment sales activity should continue to range above the long-term average and core offerings should generate interest from multiple parties. Commercial property sector risk levels should mirror that of the recent past, with the most prominent concerns related to record-high household debt, ongoing tariff disputes, geopolitical events and a slowdown in global economic activity. However, barring a significant change in the economic or financial market backdrop, Canada's commercial property sector is positioned well for a period of continued health over the near term.

PART X

FINANCIAL STATEMENTS AT THE TRUST'S OWNERSHIP SHARE

Part X 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 December 31, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
ASSETS			
Non-current assets			
Real estate properties	**$2,892,103**	**$49,405**	**$2,941,508**
Right-of-use asset	**324**	**—**	**324**
Equity-accounted investment	**23,705**	**(23,705)**	**—**
	2,916,132	**25,700**	**2,941,832**
Current assets			
Amounts receivable	**14,314**	**64**	**14,378**
Prepaid expenses and other	**1,112**	**14**	**1,126**
Cash	**5,783**	**573**	**6,356**
	21,209	**651**	**21,860**
Total assets	**$2,937,341**	**$26,351**	**$2,963,692**
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Mortgages payable	**$902,708**	**$—**	**$902,708**
Convertible debentures	**170,753**	**—**	**170,753**
Lease liabilities	**10,993**	**—**	**10,993**
Accounts payable and accrued liabilities	**4,550**	**7**	**4,557**
	1,089,004	**7**	**1,089,011**
Current liabilities			
Mortgages payable	**165,640**	**25,325**	**190,965**
Lease liabilities	**123**	**—**	**123**
Accounts payable and accrued liabilities	**47,448**	**1,019**	**48,467**
Morguard Loan payable	**32,500**	**—**	**32,500**
Bank indebtedness	**65,158**	**—**	**65,158**
	310,869	**26,344**	**337,213**
Total liabilities	**1,399,873**	**26,351**	**1,426,224**
Unitholders' equity	**1,537,468**	**—**	**1,537,468**
	$2,937,341	**$26,351**	**$2,963,692**

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

For the year ended December 31, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
Revenue from real estate properties	**$273,074**	**$6,393**	**$279,467**
Property operating costs			
Property operating expenses	**(66,800)**	**(1,254)**	**(68,054)**
Property taxes	**(47,266)**	**(671)**	**(47,937)**
Property management fees	**(9,047)**	**(187)**	**(9,234)**
	149,961	**4,281**	**154,242**
Interest expense	**(58,006)**	**(988)**	**(58,994)**
General and administrative	**(4,271)**	**(12)**	**(4,283)**
Amortization expense	**(83)**	**—**	**(83)**
Other income	**45**	**—**	**45**
Fair value losses on real estate properties	**(73,850)**	**(2,237)**	**(76,087)**
Net loss from equity-accounted investment	**1,044**	**(1,044)**	**—**
Net income and comprehensive income	**$14,840**	**$—**	**$14,840**

For the year ended December 31, 2018	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
Revenue from real estate properties	$276,473	$6,372	$282,845
Property operating costs			
Property operating expenses	(64,137)	(1,292)	(65,429)
Property taxes	(51,083)	(617)	(51,700)
Property management fees	(9,175)	(187)	(9,362)
	152,078	**4,276**	**156,354**
Interest expense	(55,648)	(1,028)	(56,676)
General and administrative	(4,781)	(11)	(4,792)
Other income	106	—	106
Fair value losses on real estate properties	(18,602)	(3,375)	(21,977)
Net loss from equity-accounted investment	(138)	138	—
Net income and comprehensive income	**$73,015**	**$—**	**$73,015**

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

For the year ended December 31, 2019	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
OPERATING ACTIVITIES			
Net income	**$14,840**	**$—**	**$14,840**
Add items not affecting cash	**76,324**	**3,701**	**80,025**
Distributions from equity-accounted investment, net	**2,085**	**(2,085)**	**—**
Additions to tenant incentives and leasing commissions	**(3,955)**	**(3)**	**(3,958)**
Net change in non-cash operating assets and liabilities	**64**	**(202)**	**(138)**
Cash provided by operating activities	**89,358**	**1,411**	**90,769**
FINANCING ACTIVITIES			
Proceeds from new mortgages	**140,892**	**—**	**140,892**
Financing costs on new mortgages	**(667)**	**—**	**(667)**
Repayment of mortgages			
Repayments on maturity	**(145,892)**	**—**	**(145,892)**
Principal instalment repayments	**(34,237)**	**(1,030)**	**(35,267)**
Payment of lease liabilities, net	**(116)**	**—**	**(116)**
Repayment of bank indebtedness, net	**(2,502)**	**—**	**(2,502)**
Decrease in Morguard loan receivable	**10,000**	**—**	**10,000**
Proceeds from Morguard loan payable	**63,500**	**—**	**63,500**
Repayment of Morguard loan payable	**(31,000)**	**—**	**(31,000)**
Distributions to unitholders	**(57,786)**	**—**	**(57,786)**
Cash used in financing activities	**(57,808)**	**(1,030)**	**(58,838)**
INVESTING ACTIVITIES			
Capital expenditures on real estate properties	**(18,515)**	**(509)**	**(19,024)**
Expenditures on properties under development	**(33,818)**	**—**	**(33,818)**
Proceeds from sale of real estate properties, net	**15,914**	**—**	**15,914**
Cash used in investing activities	**(36,419)**	**(509)**	**(36,928)**
Net change in cash	**(4,869)**	**(128)**	**(4,997)**
Cash, beginning of period	**10,652**	**701**	**11,353**
Cash, end of period	**$5,783**	**$573**	**$6,356**

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

For the year ended December 31, 2018	Per Financial Statements	Equity-Accounted Investment	At the Trust's Ownership Share
OPERATING ACTIVITIES			
Net income	$73,015	$—	$73,015
Add items not affecting cash	20,910	3,664	24,574
Distributions from equity-accounted investment, net	2,196	(2,196)	—
Additions to tenant incentives and leasing commissions	(2,452)	(2)	(2,454)
Net change in non-cash operating assets and liabilities	(195)	72	(123)
Cash provided by operating activities	**93,474**	**1,538**	**95,012**
FINANCING ACTIVITIES			
Proceeds from new mortgages	118,241	—	118,241
Financing costs on new mortgages	(685)	—	(685)
Repayment of mortgages			
Repayments on maturity	(54,584)	—	(54,584)
Principal instalment repayments	(36,333)	(993)	(37,326)
Proceeds from bank indebtedness, net	49,799	—	49,799
Increase in loan receivable	(10,000)	—	(10,000)
Proceeds from Morguard loan payable	42,500	—	42,500
Repayment of Morguard loan payable	(77,500)	—	(77,500)
Distributions to unitholders	(57,781)	—	(57,781)
Units repurchased for cancellation	(411)	—	(411)
Cash used in financing activities	**(26,754)**	**(993)**	**(27,747)**
INVESTING ACTIVITIES			
Capital expenditures on real estate properties	(20,932)	(350)	(21,282)
Expenditures on properties under development	(49,888)	—	(49,888)
Cash used in investing activities	**(70,820)**	**(350)**	**(71,170)**
Net change in cash	**(4,100)**	**195**	**(3,905)**
Cash, beginning of period	14,752	506	15,258
Cash, end of period	**$10,652**	**$701**	**$11,353**

PART XI

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

In thousands of dollars, except per-unit amounts	**Q4 2019**	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue from real estate properties	**$69,249**	$66,363	$67,008	$70,454	$71,926	$67,273	$68,029	$69,245
Net operating income	**38,757**	36,387	36,957	37,860	40,370	37,200	36,862	37,646
Fair value (losses)/gains on real estate properties	**(28,640)**	(14,928)	(24,602)	(5,680)	(17,800)	(16,867)	22,060	(5,995)
Net (loss)/income	**(3,628)**	6,254	(4,701)	16,915	6,992	4,981	43,431	17,611
Funds from operations	**24,088**	21,721	21,999	23,086	25,758	22,859	22,825	23,550
Adjusted funds from operations [3]	**17,570**	15,796	15,838	16,859	19,540	16,473	16,359	17,022
Net (loss)/income – basic	**($0.06)**	$0.10	($0.08)	$0.28	$0.11	$0.08	$0.72	$0.29
Net (loss)/income – diluted	**($0.06)**	$0.10	($0.08)	$0.25	$0.13	$0.08	$0.62	$0.27
Funds from operations – basic	**$0.40**	$0.36	$0.36	$0.38	$0.42	$0.38	$0.37	$0.39
Funds from operations – diluted	**$0.38**	$0.34	$0.35	$0.36	$0.40	$0.35	$0.36	$0.37
Adjusted funds from operations – basic [3]	**$0.29**	$0.26	$0.26	$0.28	$0.32	$0.27	$0.27	$0.28
Adjusted funds from operations – diluted [3]	**$0.28**	$0.26	$0.26	$0.27	$0.32	$0.26	$0.27	$0.27
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	**82.8%**	92.3%	92.3%	85.7%	75.0%	88.9%	88.9%	85.7%
Weighted average number of units as at quarter-end (in thousands)								
Basic	**60,727**	60,715	60,705	60,696	60,709	60,713	60,703	60,694
Diluted	**69,305**	69,294	69,283	69,275	69,287	69,291	69,281	69,272
Balance sheets								
Total assets	**$2,937,341**	$2,955,425	$2,983,511	$2,991,809	$2,978,573	$2,982,860	$2,978,658	$2,932,734
Total debt	**$1,352,545**	$1,347,772	$1,351,807	$1,344,542	$1,349,724	$1,338,492	$1,319,635	$1,304,866
Total equity	**$1,537,468**	$1,555,501	$1,563,684	$1,582,826	$1,580,414	$1,588,258	$1,597,718	$1,568,723
Gross leasable area as at quarter-end (in thousands of square feet) [1]								
Retail	**4,778**	4,752	4,749	4,761	4,629	4,641	4,606	4,594
Office	**3,240**	3,240	3,240	3,240	3,240	3,240	3,240	3,239
Industrial	**292**	292	534	534	534	534	534	534
Total	**8,310**	8,284	8,523	8,535	8,403	8,415	8,380	8,367
Occupancy as at quarter-end (%) [2]								
Retail	**95.1%**	94.6%	94.2%	94.0%	94.7%	94.0%	95.4%	96.0%
Office	**91.6%**	91.7%	91.7%	91.8%	92.9%	93.2%	92.4%	92.7%
Industrial	**90.7%**	90.3%	90.3%	88.5%	91.7%	97.7%	94.6%	98.3%
Total	**93.5%**	93.3%	93.0%	92.7%	93.8%	94.0%	94.1%	94.8%

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 XII

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	482,500	482,500
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	444,500	444,500
The Centre	Saskatoon	SK	100	518,000	518,000
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)				**4,966,000**	**4,778,500**

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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MANAGEMENT'S REPORT TO UNITHOLDERS

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

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

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

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

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

(Signed) "K. Rai Sahi"	*(Signed) "Andrew Tamlin"*
K. Rai Sahi, **Chief Executive Officer**	**Andrew Tamlin,** **Chief Financial Officer**

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF MORGUARD REAL ESTATE INVESTMENT TRUST

OPINION

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

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

BASIS FOR OPINION

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

OTHER INFORMATION

Management is responsible for the other information, which comprises:

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

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

"Ernst & Young LLP"

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

BALANCE SHEETS

In thousands of Canadian dollars

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

See accompanying notes to the consolidated financial statements.

On behalf of the Trustees:

(Signed) "K. Rai Sahi"

K. Rai Sahi,
Chairman of the Board of Trustees

(Signed) "Bart S. Munn"

Bart S. Munn,
Trustee

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per unit amounts

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

See accompanying notes to the consolidated financial statements.

STATEMENTS OF UNITHOLDERS' EQUITY

In thousands of Canadian dollars, except number of units

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

1. Distribution Reinvestment Plan ("DRIP").

See accompanying notes to the consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

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

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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

NOTE 1

NATURE AND FORMATION OF THE TRUST

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

The Trust has a property management agreement with Morguard Investments Limited ("MIL"), a subsidiary of Morguard Corporation ("Morguard"). Morguard is the parent company of the Trust, owning 58.48% of the outstanding units as at December 31, 2019. Morguard is a real estate company that owns a diversified portfolio of multi-suite residential, retail, hotel, office and industrial properties. Morguard also provides advisory and management services to institutional and other investors.

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

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

Basis of Presentation

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

Basis of Consolidation

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

Real Estate Properties

Income Producing Properties

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

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

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

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

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

Properties Under Development

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

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

Assets Held for Sale

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

Interests in Joint Arrangements

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

Cash and Cash Equivalents

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

Provisions

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

Revenue Recognition

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

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

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

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

Comprehensive Income

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

Per Unit Calculation

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

Reportable Operating Segments

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

Financial Instruments

Recognition and Measurement of Financial Instruments

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

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

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

Derivatives and Embedded Derivatives

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

Hedges

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

IFRS 16, "Leases"

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

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

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

Leases previously accounted for as operating leases

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

The Trust also applied the available practical expedients wherein it:

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

The adoption of IFRS 16 on January 1, 2019 resulted in the initial recognition of land and office right-of-use assets included in real estate properties of $10,825 and right-of-use assets of $407, respectively, and their corresponding lease liabilities of $11,232, having a weighted average incremental borrowing rate of 6.3%.

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

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

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

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

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

NOTE 4
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

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

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

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

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

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

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

Using the direct capitalization income approach to corroborate the discounted cash flow method, the properties were valued using capitalization rates in the range of 4.3% to 8.5% applied to a stabilized net operating income (2018 – 4.3% to 7.5%), resulting in an overall weighted average capitalization rate of 6.4% (2018 – 6.1%). The total stabilized annual net operating income as at December 31, 2019, was $171,345 (2018 – $167,197).

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

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

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

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

Excluded from the above analysis is a retail property located in British Columbia where the highest and best use is a redevelopment to mixed residential and commercial use. As at December 31, 2019, the value of the property is in the underlying land value with minimal holding income, and it has been valued using recent land sales with comparable redevelopment potential.

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in net operating income, with a lower capitalization rate resulting in a greater impact to the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rate were to increase or decrease by 25 basis points, the value of the income producing properties as at December 31, 2019, would decrease by $101,411 or increase by $109,698, respectively.

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

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

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

NOTE 5
RIGHT-OF-USE ASSET
The following table presents the change in the balance of the Trust's right-of-use (head office lease) asset:

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

NOTE 6
EQUITY-ACCOUNTED INVESTMENT
On December 22, 2011, the Trust and a major Canadian pension fund each acquired a 50% interest in a limited partnership that owns and operates a 304,000 square foot Class A office complex located in downtown Edmonton, Alberta, in which the Trust has a total original net investment of $28,008. The Trust has joint control over the limited partnership and accounts for its investment using the equity method.

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

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

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

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

The real estate property included above in the Trust's equity-accounted investment is appraised using a number of approaches that typically include a discounted cash flow analysis, a direct capitalization approach and a direct comparison approach. As at December 31, 2019, the property was valued using a discount rate of 7.3% (2018 – 7.3%), a terminal cap rate of 6.3% (2018 – 6.3%) and a stabilized cap rate of 6.0% (2018 – 6.0%). The stabilized annual net operating income as at December 31, 2019, was $3,096 (2018 – $2,964).

NOTE 7

CO-OWNERSHIP INTERESTS

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

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

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

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

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

NOTE 8
MORTGAGES PAYABLE

Mortgages payable consist of the following:

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

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

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

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

NOTE 9
CONVERTIBLE DEBENTURES
Debentures

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

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

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

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

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

The Convertible Debentures payable consist of the following:

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

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

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

Redemption Rights

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

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

Repayment Options

Payment Upon Redemption or Maturity

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

Interest Payment Election

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

NOTE 10
LEASE LIABILITIES

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

As at December 31,	2019
Balance as at December 31, 2018	**$—**
Adoption of IFRS 16 (Note 3)	**11,232**
Lease payments	**(813)**
Interest	**697**
Balance as at December 31, 2019	**$11,116**
Current	**$123**
Non-current	**10,993**
	$11,116
Weighted average borrowing rate	**6.3%**

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

NOTE 11
BANK INDEBTEDNESS

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

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

The bank credit agreements include certain restrictive covenants and undertakings by the Trust. As at December 31, 2019, and 2018, the Trust was in compliance with all covenants and undertakings. As the bank indebtedness is current and at prevailing market rates, the carrying value of the debt as at December 31, 2019, approximates fair value.

NOTE 12
REVENUE FROM REAL ESTATE PROPERTIES
Revenue from real estate properties consists of the following:

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

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

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

NOTE 13
EXPENSES
(a) Property Operating Expenses
Property operating expenses consist of the following:

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

(b) General and Administrative
General and administrative expenses consist of the following:

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

NOTE 14
INTEREST EXPENSE

The components of interest expense are as follows:

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

NOTE 15
RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(a) Agreement with Morguard Investments Limited

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

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

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

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

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

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

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

(b) Revolving Loan with Morguard

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

Morguard Loan Payable

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

Morguard Loan Receivable

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

(c) Sublease with Morguard (Excluding MIL)

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

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

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

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

(e) Rental Revenue from Morguard (Excluding MIL)

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

NOTE 16
UNITHOLDERS' EQUITY

(a) Units Outstanding

The Trust is authorized to issue an unlimited number of units. These units have no par value. The following table summarizes the changes in units from January 1, 2018 to December 31, 2019:

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

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

(b) Normal Course Issuer Bid

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

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

(c) Distribution Reinvestment Plan

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

(d) Net Income Per Unit

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

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

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

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

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

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

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

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

NOTE 18
INCOME TAXES

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

NOTE 19
COMMITMENTS AND CONTINGENCIES
(a) Commitments

The Trust has entered into various agreements relating to capital expenditures for its properties. These expenditures include development of new space, redevelopment or retrofit of existing space, and other capital expenditures. Should all conditions be met, as at December 31, 2019, committed capital expenditures in the next 12 months are estimated at $34,200.

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

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

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

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

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

2020	$71
2021	42
2022	40
2023	24
2024	9

(b) Contingencies

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

NOTE 20
MANAGEMENT OF CAPITAL

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

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

The total managed capital for the Trust is summarized below:

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

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

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

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

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

Mortgages Payable

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

Convertible Debentures

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

Bank Indebtedness

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

NOTE 21

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Assets and Liabilities

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

(a) Mortgages Payable

Mortgages payable are carried at amortized cost using the effective interest rate method of amortization. The estimated fair values of long-term borrowings are based on market information, where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Trust as at December 31, 2019.

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

(b) Convertible Debentures

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

(c) Fair Value Hierarchy of Real Estate Properties
The fair value hierarchy of income producing properties, properties under development and held for development measured at fair value in the balance sheets is as follows:

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

Risks Associated with Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 22
SEGMENTED INFORMATION

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

Business Segments

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

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

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

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

NOTE 23
SUBSEQUENT EVENTS

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