MORGUARD CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS AND
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SECOND QUARTER 2019

TAKING ACTION.
GETTING RESULTS.

Morguard

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

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PART I

Morguard Corporation ("Morguard" or the "Company") is pleased to provide this review of operations and update on our financial performance for the three and six months ended June 30, 2019. Unless otherwise noted, dollar amounts are stated in thousands of Canadian dollars, except per common share amounts.

The following Management's Discussion and Analysis ("MD&A") sets out the Company's strategies and provides an analysis of the financial performance for the three and six months ended June 30, 2019, and significant risks facing the business. Historical results, including trends that might appear, should not be taken as indicative of future operations or results.

This MD&A should be read in conjunction with the Company's unaudited condensed consolidated financial statements and accompanying notes for the three and six months ended June 30, 2019 and 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB") and is dated August 7, 2019. Disclosure contained in this document is current to that date unless otherwise noted.

Additional information relating to Morguard Corporation, including the Company's Annual Information Form, can be found at www.sedar.com and www.morguard.com.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

NON-IFRS FINANCIAL MEASURES

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

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

NET OPERATING INCOME ("NOI") AND ADJUSTED NET OPERATING INCOME ("ADJUSTED NOI")

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

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

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

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

COMPARATIVE NOI

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

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

FUNDS FROM OPERATIONS ("FFO") AND NORMALIZED FFO

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

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

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

NON-CONSOLIDATED MEASURES

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

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

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

NON-CONSOLIDATED INTEREST COVERAGE RATIO

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

Non-Consolidated EBITDA

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

Non-Consolidated Interest Expense

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

NON-CONSOLIDATED INDEBTEDNESS TO AGGREGATE ASSETS RATIO

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

Non-Consolidated Indebtedness

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

Non-Consolidated Aggregate Assets

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

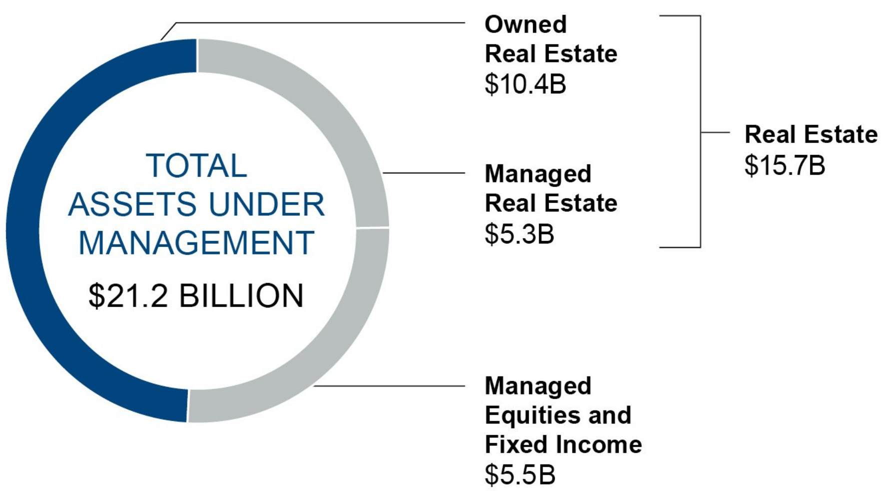
NON-CONSOLIDATED ADJUSTED SHAREHOLDERS' EQUITY

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

PART II

BUSINESS OVERVIEW

Morguard Corporation is a real estate investment company whose principal activities include the acquisition, development and ownership of multi-suite residential, commercial and hotel properties. Morguard is also one of Canada's premier real estate investment advisors and management companies, representing major institutional and private investors. Morguard's total assets under management (including both owned and managed assets) were valued at $21.2 billion as at June 30, 2019. The Company's common shares are publicly traded and listed on the Toronto Stock Exchange ("TSX") under the symbol "MRC." The Company's primary goal is to accumulate a portfolio of high-quality real estate assets and then deliver the benefits of such real estate ownership to shareholders.



MANAGEMENT AND ADVISORY SERVICES

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

As of June 30, 2019, MIL together with Lincluden manage a portfolio (excluding Morguard's corporately owned assets and assets owned by Morguard REIT, Morguard Residential REIT and Temple) of assets having an estimated value of $10.8 billion.

BUSINESS STRATEGY

Morguard's strategy is to acquire a diversified portfolio of commercial and multi-suite residential real estate assets both for its own accounts and for its institutional clients. The Company's cash flows are well diversified given the revenue stream earned from its management and advisory services platform, the Company's corporately owned assets and the distributions received from its investment in Morguard REIT and Morguard Residential REIT. Diversification of the portfolio, by both asset type and location, serves to reduce investment risk. The Company will divest itself of non-core assets when proceeds can be reinvested to improve returns. A primary element of the Company's business strategy is to generate stable and increasing cash flow and asset value by improving the performance of its real estate investment portfolio and by acquiring or developing real estate properties in sound economic markets.

The Company's business strategy consists of the following elements:

- Increase property values and cash flow through aggressive leasing of available space and of space becoming available;
- Take advantage of long-standing relationships with national and regional tenants;
- Target and execute redevelopment and expansion projects that will generate substantial returns;
- Pursue opportunities to acquire or develop strategically located properties;
- Minimize operating costs by utilizing internalized functions, including property and asset management, leasing, finance, accounting, legal and information technology services; and
- Dispose of properties where the cash flows and values have been maximized.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at	June 30, 2019	December 31, 2018	June 30, 2018
Real estate properties	**$9,702,723**	$9,645,596	$9,194,213
Hotel properties	**659,894**	666,078	677,664
Equity-accounted and other fund investments	**280,935**	281,464	294,723
Real estate properties held for sale	**15,945**	—	—
Total assets	**11,268,372**	11,082,758	10,694,615
Indebtedness[(1)]	**$5,579,291**	$5,498,668	$5,301,122
Indebtedness to total assets (%)	**49.5**	49.6	49.6
Non-Consolidated Indebtedness to total assets (%) [(2)]	**41.5**	39.8	39.7
Total equity	**$4,256,628**	$4,228,798	$4,109,263
Shareholders' equity per common share	**308.11**	303.84	285.79
Exchange rates - Canadian dollar to U.S. dollar	**$0.76**	$0.73	$0.76
Exchange rates - U.S. dollar to Canadian dollar	**$1.31**	$1.36	$1.32

(1) Total indebtedness is defined as the sum of the current and non-current portion of: (i) mortgages payable, (ii) Unsecured Debentures, (iii) convertible debentures, (iv) lease liabilities, (v) bank indebtedness, (vi) loans payable, (vii) construction financing and (viii) letters of credit.
(2) As defined in the Indenture, adjusted to exclude goodwill and deferred income tax assets and liabilities and to add back accumulated amortization of hotel properties.

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Revenue from real estate properties	**$216,093**	$207,061	**$435,933**	$410,900
Revenue from hotel properties	**65,199**	61,997	**118,826**	115,849
Management and advisory fees	**12,430**	14,401	**24,081**	28,838
Total revenue	**301,386**	287,725	**592,031**	562,543
Net operating income	**150,145**	160,235	**254,719**	259,980
Fair value gain (loss), net	**9,314**	34,529	**30,270**	130,536
Net income attributable to common shareholders	**69,722**	75,604	**103,208**	192,212
Per common share - basic and diluted	**6.17**	6.62	**9.14**	16.72
Funds from operations	**62,311**	73,166	**115,877**	123,077
Per common share - basic and diluted	**5.52**	6.39	**10.26**	10.71
Normalized FFO	**60,826**	57,366	**111,847**	106,872
Per common share - basic and diluted	**5.39**	5.01	**9.91**	9.30
Distributions received from Morguard REIT	**8,416**	8,160	**16,806**	16,320
Distributions received from Morguard Residential REIT	**4,058**	3,943	**8,115**	7,886
Dividends declared/paid	**(1,693)**	(1,716)	**(3,386)**	(3,438)
Average exchange rates - Canadian dollar to U.S. dollar	**$0.75**	$0.77	**$0.75**	$0.78
Average exchange rates - U.S. dollar to Canadian dollar	**$1.34**	$1.29	**$1.33**	$1.28

Total assets as at June 30, 2019, were $11,268,372, compared to $11,082,758 as at December 31, 2018. Total assets increased by $185,614 primarily due to the following:

- An increase in real estate properties (including property held for sale) of $73,072 mainly due to adoption of IFRS 16 which included the initial recognition of right-of-use assets on the Company's land leases of $153,610, capital and development expenditures of $37,327, tenant incentives and leasing commissions of $9,421, a fair value gain of $63,858, partially offset by the disposition of real estate properties of $63,899 and a change in the foreign exchange rate amounting to $118,999;
- An increase in other assets and prepaid expense of $33,098; and
- An increase in cash of $79,705.

Total revenue during the three months ended June 30, 2019, increased by $13,661 to $301,386, compared to $287,725 in 2018. The increase was primarily due to the following:

- An increase in revenue from real estate properties in the amount of $9,032;
- An increase in revenue from hotel properties in the amount of $3,202;
- An increase in interest and other income of $3,127, partially offset by;
- A decrease in management and advisory fees of $1,971.

PROPERTY PROFILE

As at June 30, 2019, the Company and its subsidiaries own a diversified portfolio of 208 multi-suite residential, retail, office, industrial and hotel properties located in Canada and in the United States.

PORTFOLIO COMPOSITION BY ASSET TYPE

The composition of the Company's real estate properties by asset type as at June 30, 2019 was as follows:

Asset Type	Number of Properties	GLA Square Feet (000s)(1)	Apartment Suites/Hotels Rooms(2)	Real Estate Properties
Multi-suite residential	55	—	17,638	$4,580,714
Retail	40	8,523	—	2,558,499
Office	48	7,133	—	2,317,127
Industrial	26	1,424	—	162,735
Hotel	39	—	5,903	674,097
Properties and land held for and under development	—	—	—	126,556
Total (3)	**208**	**17,080**	**23,541**	**$10,419,728**

(1) Total GLA is shown on a proportionate basis; on a 100% basis, total GLA of the Company's commercial properties is 21.4 million square feet.
(2) Total suites/hotel rooms include equity-accounted investments and non-controlling interest. The Company on a proportionate basis has ownership of 16,718 suites and 5,666 hotel rooms.
(3) Includes two multi-suite residential, two office properties and two hotel properties classified as equity-accounted investments and one office property classified as finance lease and excludes right-of-use assets on the Company's land leases.

The Company's multi-suite residential portfolio comprises 24 Canadian properties (21 high-rise buildings, two low-rise buildings and one mid-rise building located primarily throughout the Greater Toronto Area ("GTA")) and 31 U.S. properties (20 low-rise and seven mid-rise garden-style communities located in Colorado, Texas, Louisiana, Georgia, Florida, North Carolina, Virginia and Maryland and four high-rise buildings located in Chicago, Illinois and Los Angeles, California). The combined multi-suite residential portfolio represents 17,638 suites.

The Company's retail portfolio includes two broad categories of income producing properties: (i) enclosed full-scale, regional shopping centres that are dominant in their respective markets; and (ii) neighbourhood and community shopping centres that are primarily anchored by food retailers, discount department stores and banking institutions. The retail portfolio comprises 29 properties located in Canada and 11 properties located in Florida and Louisiana. The combined retail portfolio represents 8.5 million square feet of gross leasable area ("GLA").

The Company's office portfolio is focused on well-located, high-quality office buildings in major Canadian urban centres primarily located throughout the GTA, downtown Ottawa, Montréal, Calgary and Edmonton. The portfolio is balanced between single-tenant buildings under long-term lease to government and large national tenants and multi-tenant properties with well-distributed lease expiries that allow the Company to benefit from increased rent on lease renewals. The office portfolio represents 7.1 million square feet of GLA.

The Company's industrial portfolio comprises 26 industrial properties located throughout Ontario, Québec and British Columbia. The Industrial portfolio represents 1.4 million square feet of GLA.

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

AVERAGE OCCUPANCY LEVELS

COMPARATIVE AVERAGE OCCUPANCY LEVELS

	Suites/GLA Square Feet		June 2019	Mar. 2019	Dec. 2018	Sep. 2018	June 2018
Multi-suite residential	17,339	(1)	**96.9%**	96.7%	96.1%	94.7%	94.2%
Retail	7,989,500	(2)	**88.9%**	89.3%	89.8%	88.9%	89.7%
Office	7,132,500		**92.6%**	92.5%	93.3%	92.8%	92.0%
Industrial	1,424,000		**92.9%**	88.7%	90.6%	92.8%	93.3%

(1) Excludes two properties, one property located in Los Angeles, California and one property under development in New Orleans, Louisiana.
(2) Retail occupancy has been adjusted to exclude development space (533,432 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases.

The retail occupancy levels were adjusted to exclude development space (533,432 square feet of GLA) affected primarily by either disclaimed or acquired Target and Sears leases. As at June 30, 2019, this adjustment increased retail occupancy from 84.3% to 88.9%.

PART III

REVIEW OF OPERATIONAL RESULTS

The Company's operational results for the three and six months ended June 30, 2019 and 2018 are summarized below:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Revenue from real estate properties	**$216,093**	$207,061	**$435,933**	$410,900
Revenue from hotel properties	**65,199**	61,997	**118,826**	115,849
Land rent arbitration settlement	**—**	17,250	**—**	17,250
Property operating expenses				
Property operating costs	**(46,252)**	(45,178)	**(92,096)**	(89,377)
Utilities	**(14,004)**	(13,379)	**(29,767)**	(28,552)
Realty taxes	**(22,734)**	(22,913)	**(85,506)**	(78,717)
Hotel operating expenses	**(48,157)**	(44,603)	**(92,671)**	(87,373)
Net operating income	**150,145**	160,235	**254,719**	259,980
OTHER REVENUE				
Management and advisory fees	**12,430**	14,401	**24,081**	28,838
Interest and other income	**6,007**	2,880	**10,043**	4,320
Sales of product and land	**1,657**	1,386	**3,148**	2,636
	20,094	18,667	**37,272**	35,794
EXPENSES				
Interest	**56,884**	51,700	**115,931**	101,751
Property management and corporate	**21,530**	22,841	**49,062**	45,269
Cost of sales of product and land	**1,139**	921	**2,267**	1,773
Amortization of hotel properties	**6,788**	6,106	**13,560**	12,618
Amortization of capital assets and other	**2,062**	1,578	**4,079**	3,202
Provision for impairment	**—**	6,661	**—**	6,661
	88,403	89,807	**184,899**	171,274
OTHER INCOME (EXPENSE)				
Fair value gain (loss), net	**9,314**	34,529	**30,270**	130,536
Equity income (loss) from investments	**(4,658)**	(394)	**(3,212)**	195
Other income (expense)	**(1,146)**	3,482	**(961)**	5,681
	3,510	37,617	**26,097**	136,412
Income before income taxes	**85,346**	126,712	**133,189**	260,912
Provision for income taxes				
Current	**3,605**	7,992	**4,743**	9,674
Deferred	**12,399**	22,826	**20,145**	30,319
	16,004	30,818	**24,888**	39,993
Net income for the period	**$69,342**	$95,894	**$108,301**	$220,919
Net income (loss) attributable to:				
Common shareholders	**$69,722**	$75,604	**$103,208**	$192,212
Non-controlling interest	**(380)**	20,290	**5,093**	28,707
	$69,342	$95,894	**$108,301**	$220,919
Net income per common share attributable to:				
Common shareholders - basic and diluted	**$6.17**	$6.62	**$9.14**	$16.72

FOR THE THREE MONTHS ENDED JUNE 30, 2019

NET INCOME

Net income for the three months ended June 30, 2019, was $69,342 compared to $95,894 in 2018. The decrease in net income of $26,552 for the three months ended June 30, 2019, was primarily due to the following:

- A decrease in net operating income of $10,090, primarily due to the land rent arbitration settlement of $17,250 received during the second quarter of 2018, partially offset by increase in NOI due to acquisitions completed during and subsequent to June 30, 2018, and the impact of the adoption of IFRS 16, resulting in land rent expense being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease in management and advisory fees of $1,971, primarily due to lower asset management, property management and leasing fees earned compared to 2018;
- An increase in interest and other income of $3,127, primarily due to higher income earned from investments and finance lease receivable;
- An increase in interest expense of $5,184, mainly due to interest on lease liabilities (noted above), higher interest on Unsecured Debentures and higher interest on mortgages payable;
- A decrease in property management and corporate expense of $1,311, primarily due to a decrease in non-cash compensation expense related to the Company's stock appreciation rights plan ("SARs");
- A decrease in provision for impairment of $6,661, due to the recognition of impairment provision at two hotel properties located in Alberta during the second quarter of 2018;
- A decrease in non-cash net fair value gain of $25,215, mainly due to a lower net fair value gain recorded on the Company's real estate properties, partially offset by a decrease in net fair value loss on Morguard Residential REIT Units;
- An increase in equity loss from investments of $4,264, mainly due to an increase in fair value loss;
- A decrease in other income of $4,628, mainly due to a gain on the recognition of a finance lease upon the completion of the Company's development project in 2018 and an increase in foreign exchange loss; and
- A decrease in income taxes (current and deferred) of $14,814.

FOR THE SIX MONTHS ENDED JUNE 30, 2019

NET INCOME

Net income for the six months ended June 30, 2019, was $108,301, compared to $220,919 in 2018. The decrease in net income of $112,618 for the six months ended June 30, 2019, was primarily due to the following:

- A decrease in net operating income of $5,261, primarily due to the land rent arbitration settlement received during the second quarter of 2018, partially offset by acquisitions completed during and subsequent to June 30, 2018, and the impact of the adoption of IFRS 16;
- A decrease in management and advisory fees of $4,757, primarily due to lower disposition fees earned as well as a decrease in asset management and leasing fees;
- An increase in interest and other income of $5,723, primarily due to higher income from investments and finance lease receivable;
- An increase in interest expense of $14,180 mainly due to interest on lease liabilities (noted above), higher interest on Unsecured Debentures and higher interest on mortgages payable;
- An increase in property management and corporate expense of $3,793, primarily due to an increase in non-cash compensation expense related to the Company's SARs plan;
- A decrease in provision for impairment of $6,661, due to the recognition of impairment provision at two hotel properties located in Alberta during the second quarter of 2018;
- A decrease in non-cash net fair value gain of $100,266, mainly due to a lower net fair value gain recorded on the Company's real estate properties and an increase in net fair value loss on Morguard Residential REIT Units;
- An increase in equity loss from investments of $3,407, mainly due to an increase in fair value loss;
- A decrease in other income of $6,642, mainly due to higher foreign exchange loss and a gain on the recognition of a finance lease upon the completion of the Company's development project in 2018, partially offset by an increase due to insurance proceeds recognized; and
- A decrease in income taxes (current and deferred) of $15,105.

COMPARATIVE NET OPERATING INCOME

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Multi-suite residential (in local currency)	**$44,367**	$43,517	**$87,629**	$84,794
Retail (in local currency)	**32,058**	32,500	**65,331**	64,747
Office	**31,434**	30,866	**61,098**	60,347
Industrial	**2,452**	2,219	**3,515**	3,417
Hotel	**15,940**	17,593	**25,382**	28,935
Exchange amount to Canadian dollars	**8,874**	7,630	**17,467**	14,190
Comparative NOI	**135,125**	134,325	**260,422**	256,430
Land rent arbitration settlement	**—**	17,250	**—**	17,250
Acquired properties	**2,738**	62	**8,096**	2,347
Dispositions	**21**	1,197	**766**	2,360
Realty tax expense accounted for under IFRIC 21	**9,472**	7,800	**(18,829)**	(15,723)
U.S. retail - lease cancellation fees	**—**	—	**334**	—
Canadian retail - lease cancellation fees	**1,321**	—	**1,803**	531
Canadian office - lease cancellation fees	**102**	203	**408**	203
Canadian industrial - lease cancellation fees	**—**	470	**—**	470
Canadian hotel development	**1,102**	(157)	**773**	(374)
Adoption of IFRS 16	**—**	(1,941)	**—**	(4,982)
Other	**264**	1,026	**946**	1,468
NOI	**$150,145**	$160,235	**$254,719**	$259,980

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

Comparative NOI for the three months ended June 30, 2019, increased by $800, to $135,125 compared to $134,325 in 2018 due to the following reasons:

- Multi-suite residential increase of $850 as a result of an increase in Canadian and U.S. rental rate growth and improved operating efficiencies, partly offset by an increase in insurance expense and realty taxes;
- Retail decreased by $442 mainly due to increased vacancy, lower base rent and higher non-recoverable operating expenses at the Canadian properties;
- Office increased by $568 mainly due to higher base rent and lower non-recoverable operating expenses;
- Industrial increased by $233 mainly due to higher base rent and lower non-recoverable operating expenses;
- Hotel decreased by $1,653 mainly as a result of higher vacancy primarily at hotels located in Alberta, including a hotel located in Red Deer, Alberta, resulting from the hotel being re-branded; and
- The change in the foreign exchange rate increased Comparative NOI for the U.S. properties by $1,244.

Comparative NOI for the six months ended June 30, 2019, increased by $3,992, to $260,422 compared to $256,430 in 2018 due to the following:

- Multi-suite residential increase of $2,835 as a result of an increase in Canadian and U.S. rental rate growth and improved operating efficiencies, partly offset by an increase in insurance expense and realty taxes;
- Retail increased by $584 due to increased occupancy, higher base rent at Canadian properties and increased additional revenue from new tenants at two U.S. properties;
- Office increased by $751 mainly due to higher base rents and lower non-recoverable operating expenses;
- Industrial increased by $98 due to higher base rent and lower non-recoverable operating expenses;
- Hotel decreased by $3,553 mainly as a result of higher vacancy primarily at hotels located in Alberta, including the expiry of a long-term lease at the Cortona Residence as well as a hotel located in Red Deer, Alberta, resulting from the hotel being re-branded; and
- The change in the foreign exchange rate increased Comparative NOI for the U.S. properties by $3,277.

LAND RENT ARBITRATION SETTLEMENT

The Company is a lessee under a ground lease that expires on June 30, 2060. In accordance with the terms of the lease, the annual rent was scheduled to be reset to 6% of the fair market value of the land effective July 1, 2010. Since the lessor and the Company were not able to reach an agreement on the fair market value of the land on the last schedule's reset date of July 1, 2010, the matter was appointed to an arbitration tribunal (the "Arbitrators"). On June 21, 2013, a majority of the Arbitrators awarded their decision and concluded on a land value that resulted in the annual land rent increasing from $2,779 to $10,962 (the "Majority Decision"). In accordance with the Majority Decision, the Company has recorded the land rent based on the increased annual rent of $10,962.

On April 27, 2018, the Company reached an agreement on the fair market value of the land for the period from July 1, 2010 through June 30, 2030 that resulted in the annual land rent increasing from $2,779 to $8,760. The Company settled and paid an amount of $15,759 for arrears of rent and interest from July 1, 2010 to April 30, 2018. In accordance with the Majority Decision, for the period from July 1, 2010 to April 30, 2018, the Company recorded annual land rent of $10,962 and reversed $17,250 (pre-tax) of land rent previously expensed during the second quarter of 2018.

FOR THE THREE MONTHS ENDED JUNE 30, 2019

NET OPERATING INCOME

Net operating income decreased by $10,090, or 6.3%, during the three months ended June 30, 2019, to $150,145 compared to $160,235 generated in 2018, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the three months ended June 30	2019	2018
Multi-suite residential	**$52,273**	$51,111
Retail	**35,045**	32,487
Office	**33,857**	31,457
Industrial	**2,456**	2,736
Hotel	**17,042**	17,394
Adjusted NOI	**140,673**	135,185
Land rent arbitration settlement	**—**	17,250
IFRIC 21 adjustment - multi-suite residential	**8,083**	6,580
IFRIC 21 adjustment - retail	**1,389**	1,220
NOI	**$150,145**	$160,235

NOI for the three months ended June 30, 2019, decreased by $17,250 due to the land rent arbitration settlement which resulted in a reversal of $17,250 of previously expensed land rent for the period from July 1, 2010 to April 30, 2018.

NOI from the multi-suite residential portfolio for the three months ended June 30, 2019, increased by $2,665 or 4.6% to $60,356, compared to $57,691 in 2018. The increase in NOI is due to an increase in IFRIC 21 adjustment of $1,503 and the change in Adjusted NOI described below.

Adjusted NOI from the multi-suite residential portfolio for the three months ended June 30, 2019, increased by $1,162, or 2.3%, to $52,273, compared to $51,111 in 2018. The increase in Adjusted NOI is primarily due to the following reasons:

- An increase in Canadian multi-suite residential properties of $961, primarily resulting from:
  - An increase of $659 mainly from rental rate growth, improved occupancy and lower operating expenses at properties located in Canada. The average rental rate increased by 4.2% when compared to the same period in 2018. During the three months ended June 30, 2019, the Company's Canadian portfolio turned over 358 suites, or 4.5% of total suites and achieved AMR growth of 16.0% on suite turnover; and
  - An increase of $302 due to the adoption of IFRS 16;

- A decrease in U.S. multi-suite residential properties of US$549 primarily resulting from;
  - A decrease of US$808 due to the sale of five properties located in Louisiana, during the first and second quarters of 2019;
  - A decrease of US$351 mainly due to higher amortization of rental concessions at two properties located in Chicago;
  - An increase of US$511 due to the acquisition of Santorini Apartments and Vizcaya Lakes during the second quarter of 2018; and
  - An increase of US$99 mainly from rental rate growth and improved occupancy at properties located in the U.S, partly offset by an increase in insurance expense as well as an increase in realty taxes from higher assessed values. The average rental rate increased by 2.9% when compared to the same period in 2018; and
- An increase of $750 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the three months ended June 30, 2019, increased by $2,727 or 8.1% to $36,434, compared to $33,707 in 2018. The increase in NOI is due to an increase in IFRIC 21 adjustment of $169 and the change in Adjusted NOI described below.

Adjusted NOI from the retail portfolio for the three months ended June 30, 2019, increased by $2,558 or 7.9%, to $35,045, compared to $32,487 in 2018. The increase in Adjusted NOI is primarily due to the following reasons:

- An increase in Canadian retail properties of $2,353 primarily resulting from:
  - An increase of $1,466 due to adoption of IFRS 16;
  - An increase of $1,321 due to a lease cancellation fee received from a tenant at a property located in Toronto, Ontario;
  - A decrease of $434 due to increased vacancy, lower base rent and higher non-recoverable operating expenses at the Canadian properties; and
- A decrease in U.S. retail properties of US$3 primarily resulting from:
  - A decrease of US$280 primarily due to lower prime rent and higher non-recoverable operating expenses at two U.S. properties;
  - An increase of US$277 due to additional rental revenue from new tenants and lower operating expenses at two U.S. properties; and
- An increase of $208 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the three months ended June 30, 2019, increased by $2,400 or 7.6%, to $33,857, compared to $31,457 in 2018, primarily due to the following reasons:

- An increase of $1,992 due to the acquisition of 41 Rue Victoria, Ottawa, Ontario and Jean Edmonds Towers, Gatineau, Québec completed subsequent to the second quarter of 2018;
- An increase of $379 due to higher base rent and lower non-recoverable operating expenses;
- An increase of $130 due to adoption of IFRS 16; and
- A decrease in lease cancellation fees of $101 primarily due to a $203 lease cancellation fee received from a tenant at a property located in Calgary, Alberta during the second quarter of 2018, offset by a $102 lease cancellation fee received from a tenant at a property in Saint-Laurent, Québec during the second quarter of 2019.

NOI from the industrial portfolio for the three months ended June 30, 2019, decreased by $280, or 10.2%, to $2,456, compared to $2,736 in 2018, primarily due to the following reasons:

- A decrease of $470 due to a lease cancellation fee received from a tenant in 2018 at a property located in Ottawa, Ontario; and
- An increase of $190 due to higher base rent and lower non-recoverable operating expenses.

NOI from the hotel portfolio for the three months ended June 30, 2019, decreased by $352, or 2.0% to $17,042, compared to $17,394 in 2018, primarily due to the following:

- A decrease of $1,837 mainly due to higher vacancy and lower revenue per available room (“RevPar”) primarily at hotels located in Alberta;

- A decrease of $748 due to the re-branding of a hotel located in Red Deer, Alberta;
- An increase of $1,259 at the newly re-developed dual branded Hilton Garden Inn and Homewood Suites by Hilton located in Ottawa, Ontario which commenced its operations on January 1, 2019;
- An increase of $931 mainly due to an increase in the average daily room rate ("ADR") and higher RevPar at hotels located outside of the province of Alberta; and
- An increase of $43 due to adoption of IFRS 16.

MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard's management and advisory fee revenue for the three months ended June 30, 2019, decreased by $1,971, or 13.7%, to $12,430 compared to $14,401 in 2018. The decrease is mainly due to decrease in asset management, property management and leasing fees earned as compared to 2018.

The Company also generated a net profit from the sale of product and land of $518 during the three months ended June 30, 2019 (2018 - $465).

INTEREST AND OTHER INCOME

Interest and other income for the three months ended June 30, 2019, increased by $3,127 or 108.6%, to $6,007 compared to $2,880 in 2018. The increase was primarily due to higher income earned from investments and interest income earned from the Company's completed development project, the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable.

INTEREST EXPENSE

Interest expense consists of the following:

For the three months ended June 30	2019	2018
Mortgages payable	**$41,070**	$39,027
Unsecured Debentures	**8,843**	6,594
Convertible debentures, net of accretion	**2,486**	3,462
Bank indebtedness	**1,051**	1,874
Construction loans	**—**	363
Loans payable and other	**619**	1,141
Lease liabilities	**2,421**	97
Amortization of mark-to-market adjustments on mortgages, net	**(1,376)**	(2,018)
Amortization of deferred financing costs	**1,816**	1,724
Loss on extinguishment of mortgage payable	**70**	—
	57,000	52,264
Less: Interest capitalized to properties under development	**(116)**	(564)
	$56,884	$51,700

Interest expense for the three months ended June 30, 2019, increased by $5,184 to $56,884, compared to $51,700 in 2018, mainly due to higher interest on Unsecured Debentures resulting from the issuance of the Series D and Series E unsecured debentures in May 2018 and January 2019, respectively, net of the Series A unsecured debentures repayment in December 2018, higher interest on mortgages payable mainly from the financing of acquisitions completed during and subsequent to June 30, 2018, higher interest on lease liabilities due to adoption of IFRS 16 and lower amortization of mark-to-market adjustment which was partially offset by lower interest from convertible debentures due to the repayment of Temple's Series E convertible debentures in April 2019, and lower interest on bank indebtedness.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the three months ended June 30, 2019, decreased by $1,311, or 5.7% to $21,530, compared to $22,841 in 2018, primarily due to a decrease in non-cash compensation expense related to the Company's SARs plan of $1,234.

AMORTIZATION OF HOTEL PROPERTIES, CAPITAL ASSETS AND OTHER

Amortization of hotel properties, capital assets and other for the three months ended June 30, 2019, increased by $1,166 to $8,850, compared to $7,684 in 2018.

PROVISION FOR IMPAIRMENT

In accordance with IFRS, management assesses all hotel properties at the end of each reporting period to determine if there is any indication that an asset may be impaired. During the three months ended June 30, 2018, lower occupancy due to increased supply and the continued impact of reduced economic activity in Alberta affected the recoverable value of two hotel properties resulting in the recognition of an impairment provision of $6,661.

FAIR VALUE GAIN (LOSS) ON REAL ESTATE PROPERTIES

Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including changes in projected cash flows as a result of leasing, capitalization rates, discount rates and terminal capitalization rates. During the three months ended June 30, 2019, the Company recognized a fair value gain of $15,782, compared to a fair value gain of $71,986 in 2018.

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

For the three months ended June 30	2019	2018
Multi-suite residential	**$43,743**	$44,041
Retail	**(38,456)**	3,399
Office	**9,816**	20,697
Industrial	**(334)**	2,354
Properties under development	**(57)**	(305)
Land held for development	**1,070**	1,800
	$15,782	$71,986

For the three months ended June 30, 2019, the Company recognized a net fair value gain of $43,743 in the residential portfolio. The fair value gain is comprised of $39,854 at the Canadian properties as a result of an increase in stabilized NOI and $3,889 at the U.S. properties, which was predominantly due to an increase in stabilized NOI, net of a $8,083 adjustment on realty taxes accounted for under IFRIC 21.

For the three months ended June 30, 2019, the Company recognized a net fair value loss of $38,456 in the retail portfolio. The fair value loss is comprised of $34,350 at the Canadian properties predominantly due to a 25 basis point increase in capitalization rates at four shopping centres and $4,106 at the U.S. properties, which was mainly due to a decrease in stabilized NOI, net of $1,389 adjustment on realty taxes accounted for under IFRIC 21.

FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS

For the three months ended June 30, 2019, the Company recorded a fair value loss on the Morguard Residential REIT Units of $6,287, which includes a mark-to-market loss of $1,692 on the Units and the distributions made to external Unitholders of $4,595.

EQUITY LOSS FROM INVESTMENTS

Equity loss from investments consist of the following:

For the three months ended June 30	2019	2018
Joint ventures	**($4,644)**	($12)
Associates	**(14)**	(382)
	($4,658)	($394)

Equity loss from investments for the three months ended June 30, 2019, increased by $4,264 to $4,658, compared to $394 in 2018. The increase in equity loss during the three months ended June 30, 2019 is due to an increase in fair value loss as well as operating loss recorded during the period ended June 30, 2019 compared to the same period in 2018.

OTHER INCOME (EXPENSE)

Other expense for the three months ended June 30, 2019, increased by $4,628 to $1,146, compared to other income of $3,482 in 2018, primarily due to an increase in foreign exchange loss of $1,838 and a gain of $2,692 on the recognition of a finance lease upon the practical completion of the Company's development project, the Ancillary Services Building at Etobicoke General Hospital recognized in 2018.

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

INCOME TAXES

For the three months ended June 30, 2019, the Company recorded total income tax expense of $16,004, compared to $30,818 in 2018. The decrease of $14,814 is comprised of a decrease of $4,387 in current tax and a decrease of $10,427 in deferred tax.

The decrease in current tax for the three months ended June 30, 2019 is primarily a result of higher interest expense in 2019, the higher tax deduction on properties acquired during and subsequent to June 30, 2018, and higher income in 2018 due to the land rent arbitration settlement.

The decrease in deferred tax for the three months ended June 30, 2019 is primarily a result of lower fair value increase related to U.S. properties compared to the same period in 2018 and a decrease of the Alberta statutory tax rate, partially offset by the higher tax deduction on properties acquired during and subsequent to June 30, 2018.

PENSION PLANS

The Company's accounting policy under IFRS is to recognize actuarial gains/losses in the period in which they occur, and these gains/losses are reflected in the consolidated statement of comprehensive income. During the three months ended June 30, 2019, an actuarial loss of $5,355 was recorded in the consolidated statements of comprehensive income, compared to $8,167 for the same period in 2018.

FOR THE SIX MONTHS ENDED JUNE 30, 2019

NET OPERATING INCOME

Net operating income decreased by $5,261 or 2.0%, during the six months ended June 30, 2019, to $254,719, compared to $259,980 generated in 2018, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the six months ended June 30	2019	2018
Multi-suite residential	**$103,349**	$98,506
Retail	**71,856**	64,123
Office	**67,584**	62,346
Industrial	**4,604**	5,002
Hotel	**26,155**	28,476
Adjusted NOI	**273,548**	258,453
Land rent arbitration settlement	—	17,250
IFRIC 21 adjustment - multi-suite residential	**(16,075)**	(13,093)
IFRIC 21 adjustment - retail	**(2,754)**	(2,630)
NOI	**$254,719**	$259,980

NOI for the six months ended June 30, 2019, decreased by $17,250 due to the land rent arbitration settlement which resulted in a reversal of $17,250 of previously expensed land rent for the period from July 1, 2010 to April 30, 2018.

NOI from the multi-suite residential portfolio for the six months ended June 30, 2019, increased by $1,861 or 2.2% to $87,274, compared to $85,413 in 2018. The increase in NOI is due to an increase in the IFRIC 21 adjustment of $2,982 and the change in Adjusted NOI described below.

Adjusted NOI from the multi-suite residential portfolio for the six months ended June 30, 2019, increased by $4,843 or 4.9% to $103,349, compared to $98,506 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian multi-suite residential properties of $2,416 primarily resulting from:
  - An increase of $1,610 mainly from rental rate growth, improved occupancy and lower operating expenses at properties located in Canada. The average rental rate increased by 4.2% when compared to the same period in 2018. During the six months ended June 30, 2019, the Company’s Canadian portfolio turned over 581 suites, or 7.3% of total suites and achieved AMR growth of 15.4% on suite turnover; and
  - An increase of $806 due to the adoption of IFRS 16;
- An increase in U.S. multi-suite residential properties of US$143 primarily resulting from:
  - An increase of US$467 mainly from rental rate growth and improved occupancy at properties located in the U.S., partly offset by an increase in amortization of rental concessions, insurance expense as well as an increase in realty taxes resulting from higher assessed values. The average rental rate increased by 2.9% when compared to the same period in 2018;
  - An increase of US$814 due to the acquisition of Santorini Apartments and Vizcaya Lakes during the second quarter of 2018; and
  - A decrease of US$1,138 due to the sale of five properties located in Louisiana, during the first and second quarters of 2019; and
- An increase of $2,284 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the six months ended June 30, 2019, increased by $7,609 or 12.4%, to $69,102, compared to $61,493 in 2018. The increase in NOI is due to an increase in the IFRIC 21 adjustment of $124 and the change in Adjusted NOI described below.

Adjusted NOI from the retail portfolio for the six months ended June 30, 2019, increased by $7,733, or 12.1%, to $71,856, compared to $64,123 in 2018. The increase in Adjusted NOI is primarily due to the following:

- An increase in Canadian retail properties of $6,488 primarily resulting from:
  - An increase of $3,781 due to adoption of IFRS 16;
  - An increase in lease cancellation fees of $1,272 primarily due to $1,803 in lease cancellation fees received at three properties during 2019, offset by $531 received from tenants during the first and second quarters of 2018;
  - An increase of $1,064 due to non-recurring income from a prior year realty tax refund and a settlement of disputed charges;
  - An increase of $371 from increased occupancy, higher base rent and lower non-recoverable operating expenses at the Canadian properties;
- An increase in U.S. retail properties of US$560 primarily resulting from:
  - An increase of US$743 due to additional rental revenue from new tenants and lower operating expenses at three U.S. properties;
  - A decrease of US$393 primarily due to lower prime rent and higher non-recoverable operating expenses at two U.S. properties;
  - An increase of US$250 in lease cancellation fees received; and
- An increase of $685 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the six months ended June 30, 2019, increased by $5,238 or 8.4%, to $67,584, compared to $62,346 in 2018 due primarily to the following:

- An increase of $4,589 due to the acquisition of 5985 Explorer Drive, Mississauga, Ontario, 41 Rue Victoria, Ottawa, Ontario and Jean Edmonds Towers, Gatineau, Québec, completed during and subsequent to the first quarter of 2018;

- An increase in lease cancellation fees of $205 primarily due to a $408 lease cancellation fee received from a tenant at a property in Saint-Laurent, Québec during 2019, offset by a $203 lease cancellation fee received from a tenant at a property located in Calgary, Alberta during second quarter of 2018; and
- An increase of $309 due to adoption of IFRS 16.

NOI from the industrial portfolio for the six months ended June 30, 2019, decreased by $398, or 8.0%, to $4,604, compared to $5,002 in 2018 due to the following:

- A decrease of $470 due to a lease cancellation fee received from a tenant in 2018 at a property located in Ottawa, Ontario; and
- An increase of $72 is due to the acquisition of 1100 and 1101 Polytek Street, during first quarter of 2018.

NOI from the hotel portfolio for the six months ended June 30, 2019, decreased by $2,321 or 8.2%, to $26,155, compared to $28,476 in 2018 due primarily to the following:

- A decrease of $3,323 mainly due to higher vacancy and lower RevPar primarily at hotels located in Alberta, including the expiry of a long term lease at the Cortona Residence, Fort McMurray, Alberta;
- A decrease of $1,309 due to the re-branding of a hotel located in Red Deer, Alberta;
- An increase in net operating income of $1,147 at the newly re-developed dual branded Hilton Garden Inn and Homewood Suites by Hilton located in Ottawa, Ontario which commenced its operations on January 1, 2019;
- An increase of $1,078 mainly due to an increase in ADR and RevPar at hotels located outside of the province of Alberta; and
- An increase of $86 due to adoption of IFRS 16.

MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard's management and advisory fee revenue for the six months ended June 30, 2019, decreased by $4,757, or 16.5%, to $24,081, compared to $28,838 in 2018, primarily due to lower disposition fees earned as well as a decrease in asset management and leasing fees compared to 2018.

The Company also generated a net profit from the sale of product and land of $881 during the six months ended June 30, 2019 (2018 - $863).

INTEREST AND OTHER INCOME

Interest and other income for the six months ended June 30, 2019, increased by $5,723, or 132.5%, to $10,043, compared to $4,320 in 2018. The increase was primarily due to higher income earned from investments and due to finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable.

INTEREST EXPENSE

Interest expense consists of the following:

For the six months ended June 30	2019	2018
Mortgages payable	**$82,503**	$77,979
Unsecured Debentures	**16,863**	12,074
Convertible debentures, net of accretion	**7,185**	7,986
Bank indebtedness	**2,006**	3,259
Construction loans	**—**	756
Loans payable and other	**1,503**	1,388
Lease liabilities	**4,843**	192
Amortization of mark-to-market adjustments on mortgages, net	**(2,852)**	(4,168)
Amortization of deferred financing costs	**3,634**	3,404
Loss on extinguishment of mortgage payable	**561**	—
	116,246	102,870
Less: Interest capitalized to properties under development	**(315)**	(1,119)
	$115,931	$101,751

Interest expense for the six months ended June 30, 2019, increased by $14,180, or 13.9%, to $115,931, compared to $101,751 in 2018, mainly due to higher interest on mortgages payable mainly from the financing of acquisitions completed during and subsequent to June 30, 2018, higher interest on lease liabilities due to adoption of IFRS 16, a loss on extinguishment of mortgages payable on the disposal of properties, lower amortization of mark-to-market adjustment and higher interest on Unsecured Debentures resulting from the issuance of the Series D and Series E unsecured debentures in May 2018 and January 2019, respectively, net of the Series A unsecured debentures repayment in December 2018, which was partly offset by lower interest from the repayment of Temple's Series F and E convertible debentures in April 2018 and April 2019, respectively, and lower interest on bank indebtedness.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the six months ended June 30, 2019, increased by $3,793, or 8.4%, to $49,062, compared to $45,269 in 2018, primarily due to an increase in non-cash compensation expense related to the Company's SARs plan of $3,560.

AMORTIZATION OF HOTEL PROPERTIES, CAPITAL ASSETS AND OTHER

Amortization of hotel properties, capital assets and other for the six months ended June 30, 2019, increased by $1,819 to $17,639, compared to $15,820 in 2018.

PROVISION FOR IMPAIRMENT

In accordance with IFRS, management assesses all hotel properties at the end of each reporting period to determine if there is any indication that an asset may be impaired. During the six months ended June 30, 2018, lower occupancy due to increased supply and the continued impact of reduced economic activity in Alberta affected the recoverable value of two hotel properties resulting in the recognition of an impairment provision of $6,661.

FAIR VALUE GAIN (LOSS) ON REAL ESTATE PROPERTIES

Fair value adjustments are determined based on the movement of various valuation parameters on a quarterly basis, including changes in projected cash flows as a result of leasing, capitalization rates, discount rates and terminal capitalization rates. During the six months ended June 30, 2019, the Company recognized a net fair value gain on real estate properties of $64,269, compared to a net fair value gain of $137,275 in 2018.

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

For the six months ended June 30	2019	2018
Multi-suite residential	**$89,189**	$125,316
Retail	**(26,671)**	3,530
Office	**138**	5,044
Industrial	**233**	1,890
Properties under development	**(57)**	(305)
Land held for development	**1,437**	1,800
	$64,269	$137,275

For the six months ended June 30, 2019, the Company recognized a net fair value gain of $89,189 in the residential portfolio. The fair value gain consists of $66,909 at the Canadian properties primarily as a result of an increase in stabilized NOI and $22,280 fair value gain at the U.S. properties which was predominantly due to a net increase in stabilized NOI and a $16,075 adjustment on realty taxes accounted for under IFRIC 21.

For the six months ended June 30, 2019, the Company recognized a net fair value loss of $26,671 in the retail portfolio. The fair value loss consists of $27,653 at the Canadian properties predominantly due to lower stabilized NOI as well as a 25 basis point increase in capitalization rates at four shopping centres and a fair value gain of $982 at the U.S. properties which was predominantly due to a $2,754 adjustment on realty taxes accounted for under IFRIC 21.

FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS

For the six months ended June 30, 2019, the Company recorded a fair value loss on the Morguard Residential REIT Units of $40,088, which includes a mark-to-market loss of $30,899 on the Units and the distributions made to external Unitholders of $9,189.

EQUITY INCOME (LOSS) FROM INVESTMENTS

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

For the six months ended June 30	2019	2018
Joint ventures	**($4,054)**	$1,325
Associates	**842**	(1,130)
	($3,212)	$195

Equity loss from investments for the six months ended June 30, 2019, increased by $3,407 to $3,212, compared to income of $195 in 2018. The increase in equity loss is mainly due to a higher fair value loss during the six months ended June 30, 2019 compared to the same period in 2018, partially offset by a decrease in operating income.

OTHER INCOME (EXPENSE)

Other expense for the six months ended June 30, 2019, increased by $6,642 to $961, compared to other income of $5,681 in 2018, primarily due to a gain of $2,692 on the recognition of a finance lease upon the practical completion of the Company's development project, the Ancillary Services Building at Etobicoke General Hospital in 2018, as well as, an increase in foreign exchange loss of $5,885, which were partially offset by a gain of $508 on the sale of a hotel property and an increase in other income of $1,427, primarily from insurance proceeds.

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

INCOME TAXES

For the six months ended June 30, 2019, the Company recorded total income tax expense of $24,888, compared to $39,993 in 2018. The decrease of $15,105 comprises a decrease of $4,931 in current tax and a decrease of $10,174 in deferred tax.

The decrease in current tax for the six months ended June 30, 2019 is primarily a result of higher interest expense in 2019, the higher tax deduction on properties acquired during and subsequent to June 30, 2018, and higher income in 2018 due to the land rent arbitration settlement.

The decrease in deferred tax for the six months ended June 30, 2019 is primarily a result of lower fair value increase related to U.S. properties compared to the same period in 2018 and a decrease of the Alberta statutory tax rate, partially offset by the higher tax deduction on properties acquired during and subsequent to June 30, 2018 and a lower 2018 deferred tax due to a change of estimate.

PENSION PLANS

The Company's accounting policy under IFRS is to recognize actuarial gains/losses in the period in which they occur, and these gains/losses are reflected in the consolidated statements of comprehensive income. During the six months ended June 30, 2019, an actuarial gain of $5,321 was recorded in the consolidated statements of comprehensive income, compared to an actuarial loss of $4,294 for the six months ended June 30, 2018.

FUNDS FROM OPERATIONS

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Multi-suite residential	**$52,273**	$51,111	**$103,349**	$98,506
Retail	**35,045**	32,487	**71,856**	64,123
Office	**33,857**	31,457	**67,584**	62,346
Industrial	**2,456**	2,736	**4,604**	5,002
Hotel	**17,042**	17,394	**26,155**	28,476
Adjusted NOI	**140,673**	135,185	**273,548**	258,453
Other Revenue				
Land rent arbitration settlement	**—**	17,250	**—**	17,250
Management and advisory fees	**12,430**	14,401	**24,081**	28,838
Interest and other income	**6,007**	2,880	**10,043**	4,320
Sale of product and land, net of costs	**518**	465	**881**	863
Equity-accounted FFO(1)	**1,242**	1,542	**1,770**	3,520
	20,197	36,538	**36,775**	54,791
Expenses and Other				
Interest	**(56,884)**	(51,700)	**(115,931)**	(101,751)
Property management and corporate	**(21,530)**	(22,841)	**(49,062)**	(45,269)
Internal leasing costs	**1,015**	990	**1,625**	1,449
Amortization of capital assets	**(483)**	(1,174)	**(1,990)**	(2,342)
Current income taxes	**(3,605)**	(7,992)	**(4,743)**	(9,674)
Non-controlling interests' share of FFO	**(11,120)**	(13,699)	**(21,983)**	(26,187)
Non-controlling interest - Morguard Residential REIT	**(5,608)**	(5,653)	**(10,997)**	(11,015)
Unrealized changes in the fair value of financial instruments	**(307)**	759	**7,315**	2,037
Gain on finance lease	**—**	2,692	**—**	2,692
Other income (expense)	**(37)**	61	**1,320**	(107)
FFO	**$62,311**	$73,166	**$115,877**	$123,077
FFO per common share amounts – basic and diluted	**$5.52**	$6.39	**$10.26**	$10.71
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	**11,285**	11,444	**11,287**	11,493

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

For the three months ended June 30, 2019, the Company recorded FFO of $62,311 ($5.52 per common share), compared to $73,166 ($6.39 per common share) in 2018. The decrease in FFO of $10,855 is mainly due to the following:

- An increase in Adjusted NOI of $5,488, primarily due to the acquisition of properties and the impact of the adoption of IFRS 16, resulting in land rent expense being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease of $17,250 due to the reversal of land rent expense relating to the land rent arbitration settlement that was recognized in the second quarter of 2018;
- A decrease in management and advisory fees of $1,971, primarily due to lower asset management, property management and leasing fees earned;
- An increase in interest and other income of $3,127, due to higher income earned from investments as well as finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable;
- An increase in interest expense of $5,184, mainly due to interest on lease liabilities (noted above), higher interest on Unsecured Debentures and higher interest on mortgages payable;
- A decrease in property management and corporate expense of $1,311, primarily due to a decrease in non-cash compensation expense related to the Company's SAR's plan;

- A decrease in current income taxes of $4,387;
- A decrease in the non-controlling interests' share of FFO of $2,579; and
- A decrease of $2,692 due to a gain on the recognition of a finance lease during the second quarter of 2018.

The change in foreign exchange rate had a positive impact on FFO of $506 ($0.04 per common share).

For the six months ended June 30, 2019, the Company recorded FFO of $115,877 ($10.26 per common share), compared to $123,077 ($10.71 per common share) in 2018. The increase in FFO of $7,200 is mainly due to the following:

- An increase in Adjusted NOI of $15,095, primarily due to the acquisition of properties and the impact of the adoption of IFRS 16, resulting in land rent expense being included in NOI in the comparative period while effective January 1, 2019, a finance charge is included in interest expense;
- A decrease of $17,250 due to the reversal of land rent expense relating to the land rent arbitration settlement that was recognized in the second quarter of 2018;
- A decrease in management and advisory fees of $4,757, primarily due to lower disposition fees earned as well as a decrease in asset management and leasing fees;
- An increase in interest and other income of $5,723, primarily due to higher income earned from investments and finance interest earned from the Etobicoke Wellness Centre at Etobicoke General Hospital, classified as a finance lease receivable;
- A decrease in equity-accounted FFO of $1,750;
- An increase in interest expense of $14,180, mainly due to interest on lease liabilities (noted above), higher interest on Unsecured Debentures and higher interest on mortgages payable;
- An increase in property management and corporate expense of $3,793, primarily due to an increase in non-cash compensation expense related to the Company's SAR's plan;
- A decrease in current income taxes of $4,931;
- A decrease in the non-controlling interests' share of FFO of $4,204;
- An increase in unrealized changes in the fair value of financial instruments of $5,278;
- A decrease of $2,692 due to a gain on the recognition of a finance lease during the second quarter of 2018; and
- An increase in other income of $1,427 primarily from insurance proceeds.

The change in foreign exchange rate had a positive impact on FFO of $1,133 ($0.09 per common share).

Normalized FFO	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
FFO (from above)	**$62,311**	$73,166	**$115,877**	$123,077
Add/(deduct):				
Land lease arbitration settlement	**—**	(17,250)	**—**	(17,250)
Gain on finance lease	**—**	(2,692)	**—**	(2,692)
Insurance proceeds	**(433)**	—	**(2,166)**	—
Lease cancellation fee	**(1,402)**	(584)	**(2,255)**	(1,086)
	60,476	52,640	**111,456**	102,049
Tax effect	**350**	4,726	**391**	4,823
Normalized FFO	**$60,826**	$57,366	**$111,847**	$106,872
Per common share amounts – basic and diluted	**$5.39**	$5.01	**$9.91**	$9.30

Normalized FFO for the three months ended June 30, 2019, was $60,826, or $5.39 per common share, versus $57,366, or $5.01 per common share, for the same period in 2018, which represents an increase of $3,460, or 6.0%.

Normalized FFO for the six months ended June 30, 2019, was $111,847, or $9.91 per common share, versus $106,872, or $9.30 per common share, for the same period in 2018, which represents an increase of $4,975, or 4.7%.

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Net income attributable to common shareholders	**$69,722**	$75,604	**$103,208**	$192,212
Add/(deduct):				
Fair value gain on real estate properties, net(1)	**(10,099)**	(70,305)	**(59,720)**	(134,402)
Non-controlling interests' share of fair value gain (loss) on real estate properties, net	**(10,810)**	10,051	**(12,382)**	9,605
Fair value loss (gain) on Morguard Residential REIT Units	**1,692**	33,311	**30,899**	(17)
Distribution to Morguard Residential REIT's external Unitholders	**4,595**	4,460	**9,189**	8,919
Non-controlling interest - Morguard Residential REIT	**(5,608)**	(5,653)	**(10,997)**	(11,015)
Fair value loss (gain) on conversion option of MRG convertible debentures	**(126)**	445	**1,226**	(126)
Amortization of intangible asset	**1,579**	430	**2,089**	860
Amortization of hotel properties(2)	**7,005**	6,335	**13,993**	13,070
Non-controlling interests' share of amortization of hotel properties	**(1,290)**	(2,041)	**(3,233)**	(4,099)
Foreign exchange loss (gain)	**1,109**	(729)	**2,789**	(3,096)
Deferred income taxes	**12,399**	22,826	**20,145**	30,319
Non-controlling interests' share of deferred income taxes	**(4)**	827	**(162)**	777
Internal leasing costs	**1,015**	990	**1,625**	1,449
Realty taxes accounted for under IFRIC 21(3)	**(8,868)**	(7,295)	**17,716**	14,711
Provision for impairment	**—**	6,661	**—**	6,661
Non-controlling interests' share of provision for impairment	**—**	(2,751)	**—**	(2,751)
Gain on sale of hotel property	**—**	—	**(508)**	—
FFO	**$62,311**	$73,166	**$115,877**	$123,077
FFO per common share – basic and diluted	**$5.52**	$6.39	**$10.26**	$10.71
Weighted average number of common shares outstanding (in thousands):				
Basic and diluted	**11,285**	11,444	**11,287**	11,493

(1) Includes fair value adjustments on real estate properties for equity-accounted investments.
(2) Includes amortization of hotel properties for equity-accounted investments.
(3) Realty taxes accounted for under IFRIC 21 exclude non-controlling interests' share.

PART IV

BALANCE SHEET ANALYSIS

REAL ESTATE PROPERTIES

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

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

As at	June 30, 2019	December 31, 2018
Real estate properties		
Multi-suite residential	**$4,499,077**	$4,543,672
Retail	**2,691,217**	2,589,422
Office	**2,239,083**	2,215,973
Industrial	**162,735**	162,235
	9,592,112	9,511,302
Properties under development	**48,193**	56,717
Land held for development	**78,363**	77,577
Real estate properties	**$9,718,668**	$9,645,596
Real estate properties	**$9,702,723**	$9,645,596
Real estate properties held for sale	**15,945**	—
Total	**$9,718,668**	$9,645,596

Real estate properties (including properties held for sale) increased by $73,072 at June 30, 2019, to $9,718,668, compared to $9,645,596 at December 31, 2018. The increase is primarily the result of the following:

- Capitalization of property enhancements, including capital expenditures and tenant improvements totalling $30,289;
- Development expenditures of $16,459;
- Dispositions of real estate properties totalling $63,899 as a result of the following asset sales;

Property	Date of Disposition	Asset Type	Suites / Sq. Sq. Ft.	Proceeds	Net Proceeds (1)
Villages of Willamsburg	February 1, 2019	Residential	194	**$13,510**	**$6,530**
Steeplechase	March 19, 2019	Residential	192	**15,062**	**5,645**
Magnolia Place	March 19, 2019	Residential	148	**8,208**	**2,274**
Garden Lane	March 27, 2019	Residential	261	**22,601**	**11,270**
Colonial Manor	April 30, 2019	Residential	48	**4,428**	**1,576**
2 Rue St. Augustin	June 21, 2019	Industrial	10,000	**90**	**90**
				$63,899	**$27,385**

(1) Net of repayment and mortgages assumed.

- An increase from the initial recognition of right-of-use assets on the Company's land leases on the adoption of IFRS 16 of $153,610;
- A fair value gain on real estate properties of $63,858; and
- A decrease of $118,999 due to the change in the U.S. dollar foreign exchange rate.

APPRAISAL CAPITALIZATION AND DISCOUNT RATES

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

Using the direct capitalization approach, the multi-suite residential, retail, office and industrial properties were valued using capitalization rates in the range of 3.5% to 8.8% (December 31, 2018 - 3.5% to 12.0%), resulting in an overall weighted average capitalization rate of 5.5% (December 31, 2018 - 5.3%).

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

As at	June 30, 2019					December 31, 2018				
	Occupancy Rates		Capitalization Rates			Occupancy Rates		Capitalization Rates		
	Max.	Min.	Max.	Min.	Weighted Average	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	**98.0%**	**92.0%**	**6.8%**	**3.5%**	**4.5%**	98.0%	90.0%	7.8%	3.5%	4.5%
Retail	**100.0%**	**85.0%**	**8.8%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**7.8%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**7.0%**	**5.0%**	**5.7%**	100.0%	95.0%	7.5%	5.0%	5.8%

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

As at	June 30, 2019			December 31, 2018		
	Maximum	Minimum	Weighted Average	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.5%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**9.0%**	**5.3%**	**6.0%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.4%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**7.5%**	**6.0%**	**6.5%**	7.3%	6.0%	6.5%
Terminal cap rate	**7.0%**	**5.0%**	**5.8%**	6.8%	5.0%	5.8%

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

The sensitivity of the fair values of the Company's income producing properties as at June 30, 2019, and December 31, 2018, is set out in the table below:

As at	June 30, 2019		December 31, 2018	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($229,784)**	**$256,366**	($241,337)	$270,194
Retail	**(90,580)**	**97,848**	(94,615)	102,416
Office	**(84,646)**	**91,929**	(84,780)	92,160
Industrial	**(6,409)**	**6,994**	(6,266)	6,826
	($411,419)	**$453,137**	($426,998)	$471,596

HOTEL PROPERTIES

Hotel properties consist of the following:

As at	June 30, 2019	December 31, 2018
Cost	**$794,683**	$788,412
Accumulated impairment provision	**(54,258)**	(54,258)
Accumulated amortization	**(80,531)**	(68,076)
Hotel properties	**$659,894**	$666,078

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

EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at	June 30, 2019	December 31, 2018
Joint ventures	**$49,605**	$52,803
Associates	**127,345**	124,677
Equity-accounted investments	**176,950**	177,480
Other real estate fund investments	**103,985**	103,984
Equity-accounted and other fund investments	**$280,935**	$281,464

The following are the Company's significant equity-accounted investments as at June 30, 2019, and December 31, 2018:

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$22,667**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**3,041**	7,031
Greypoint Capital L.P. (1)	Toronto, ON	Joint Venture	Other	**26.8%**	36.4%	**8,127**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**11,029**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,741**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**61,298**	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	**49.0%**	49.0%	**46,882**	53,476
MIL Industrial Fund II LP(2)	Various	Associate	Industrial	**18.8%**	18.8%	**19,165**	18,555
						$176,950	$177,480

(1) Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.
(2) The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

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

As at	June 30, 2019	December 31, 2018
Balance, beginning of period	**$177,480**	$187,365
Additions	**8,814**	7,786
Share of net loss	**(3,212)**	(22,654)
Distributions received	**(1,705)**	(4,472)
Foreign exchange gain (loss)	**(4,427)**	9,455
Balance, end of period	**$176,950**	$177,480

MORTGAGES PAYABLE

Mortgages payable totalled $4,198,655 at June 30, 2019, compared to $4,362,701 at December 31, 2018, a decrease of $164,046. The decrease was predominantly due to the repayment of mortgages discharged and matured of $66,868, scheduled principal repayments of $54,713 and a decrease of $53,371 from the change in the foreign exchange rate, partially offset by net proceeds from new financing of $10,947.

MORTGAGE CONTINUITY SCHEDULE

As at	June 30, 2019	December 31, 2018
Opening mortgage balance	**$4,362,701**	$4,056,028
New mortgage financing	**11,253**	477,769
New mortgage financing costs	**(306)**	(2,797)
Mortgages discharged and matured	**(66,868)**	(196,704)
Scheduled principal repayments	**(54,713)**	(109,578)
Mortgages assumed on acquisition	**—**	32,264
Change in foreign exchange rate	**(53,371)**	108,745
Mortgages mark-to-market adjustment, net	**(2,852)**	(7,480)
Deferred financing costs (including extinguishment)	**2,811**	4,454
Closing mortgage balance	**$4,198,655**	$4,362,701

MORTGAGE REPAYMENT SCHEDULE

As at June 30, 2019	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of the year)	$51,277	$636,529	$687,806	4.49%
2020	99,233	164,293	263,526	4.76%
2021	94,122	391,688	485,810	4.37%
2022	87,541	382,989	470,530	3.66%
2023	66,541	529,539	596,080	3.60%
Thereafter	216,080	1,485,855	1,701,935	3.64%
	$614,794	$3,590,893	4,205,687	3.89%
Mark-to-market adjustment, net			14,596	
Deferred financing costs			(21,628)	
			$4,198,655	

The Company’s first mortgages are registered against specific real estate assets and hotel properties. As at June 30, 2019, mortgages payable bear interest at rates ranging between 2.25% and 8.95% per annum with a weighted average interest rate of 3.89% (December 31, 2018 - 3.87%) and mature between 2019 and 2058 with a weighted average term to maturity of 4.8 years (December 31, 2018 - 5.2 years). Approximately 93.5% of the Company’s mortgages have fixed interest rates.

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at June 30, 2019, Temple was not in compliance with seven (December 31, 2018 - seven) debt service covenants affecting seven (December 31, 2018 - seven) mortgage loans amounting to $102,904 (December 31, 2018 - $104,525). Subsequent to June 30, 2019, the Company received a waiver in regard to one mortgage loan with an aggregate amount of $14,497. None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $33,623 scheduled to retire after June 30, 2020.

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

MORTGAGE MATURITY SCHEDULE

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

			2019			2020
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Multi-suite residential	3	$100,353	3.21%	1	$8,828	4.25%
Retail	4	206,715	3.61%	1	28,439	4.07%
Office	2	49,267	3.75%	5	119,030	4.96%
Hotels(1)	16	245,223	5.79%	1	7,996	4.72%
	25	$601,558	4.45%	8	$164,293	4.76%

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

The following table details the new and refinancing activities completed during the six months ended June 30, 2019.

Date	Asset Type	Location	Interest Rate	Term (years)	Mortgage Amount
January 4, 2019	Office	Edmonton, AB	3.90%	3.0	$11,253
January 14, 2019	Hotel	Fort McMurray, AB	6.00%	1.0	6,850
January 14, 2019	Hotel	Lloydminster, AB	6.00%	1.0	7,965
January 14, 2019	Hotel	Red Deer, AB	6.00%	1.0	27,984
Weighted Averages and Total			**5.56%**	**1.4**	**$54,052**

The following table details the mortgages repaid at maturity and extinguished early during the six months ended June 30, 2019.

Date	Asset Type	Location	Mortgage Amount
March 27, 2019	Residential	Gretna, LA	$11,331
January 4, 2019	Office	Edmonton, AB	16,253
January 14, 2019	Hotel	Fort McMurray, AB	6,850
January 14, 2019	Hotel	Lloydminster, AB	7,965
January 14, 2019	Hotel	Red Deer, AB	27,984
March 11, 2019	Hotel	Calgary, AB	7,000
April 1, 2019	Hotel	Fort McMurray, AB	500
April 1, 2019	Hotel	Lloydminster, AB	1,250
April 1, 2019	Hotel	Red Deer, AB	750
Weighted Averages and Total			**$79,883**

UNSECURED DEBENTURES

The Company's Unsecured Debentures consist of the following:

As at	Maturity Date	Coupon Interest Rate	June 30, 2019	December 31, 2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Unamortized financing costs			**(3,161)**	(2,303)
			$821,839	$597,697

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

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

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

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

For the three and six months ended June 30, 2019, interest on the Unsecured Debentures of $8,843 (2018 - $6,594) and $16,863 (2018 - $12,074), respectively, are included in interest expense.

The covenants that govern the Unsecured Debentures are calculated using the Company's published results prepared in accordance with IFRS adjusted as required to account for the Company's Public Entity Investments using the equity method of accounting and other adjustments defined by the Indenture. The presentation of the Non-Consolidated balance sheet does not classify short-term and long-term assets and liabilities. In addition, other assets as presented in the Non-Consolidated balance sheet group the following items that are presented as a separate financial statement line in the Company's consolidated balance sheet: mortgages and loans receivable; amounts receivable; prepaid expenses and other; and cash.

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

Non-Consolidated Basis adjustments include the following:

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

The covenants computed on a Non-Consolidated Basis are as follows:

Non-Consolidated Basis	Covenant Requirements	June 30, 2019	June 30, 2018
Interest coverage ratio(1)	1.65	**2.81**	3.33
Indebtedness to aggregate assets ratio(2)	Less than or equal to 65%	**41.4%**	39.7%
Adjusted shareholders’ equity(3)	Not less than $300,000	**$3,648,167**	$3,435,533

(1) For the twelve months ended June 30, 2019 and June 30, 2018, respectively.

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

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

The Company’s unencumbered properties on a Non-Consolidated Basis as at June 30, 2019, are $502,373 (December 31, 2018 - $515,293).

The adoption of IFRS 16 on January 1, 2019 resulted in the initial recognition of land and office right-of-use assets included in real estate properties, hotel properties and other assets totalling $148,305 (on a Non-Consolidated Basis) and a corresponding lease liability. In addition, commencing January 1, 2019, land lease and office lease expenses (previously included in EBITDA) are recorded in interest expense.

The adoption of IFRS 16 had a negative impact on the indebtedness to aggregate asset ratio, which would have been 40.1% excluding the adoption of IFRS 16.

The adoption of IFRS 16 had a negative impact to the interest coverage ratio, which would have been 2.87 times excluding the adoption of IFRS 16. The interest coverage ratio is calculated on a trailing twelve months basis and the six months ended June 30, 2019 includes land and office rent as interest expense.

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

MORGUARD NON-CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

As at June 30, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
ASSETS						
Real estate properties	$9,718,668	($2,914,614)	($2,863,057)	$—	($83,620)	$3,857,377
Hotel properties	659,894	—	—	(396,881)	(25,828)	237,185
Equity-accounted and other fund investments	280,935	(22,667)	(41,283)	(11,025)	1,478,483	1,684,443
Investment in Class C LP Units	—	—	—	—	88,466	88,466
Other assets	608,875	(46,230)	(48,437)	(34,528)	89,443	569,123
Total assets	$11,268,372	($2,983,511)	($2,952,777)	($442,434)	$1,546,944	$6,436,594
LIABILITIES						
Mortgage payable and Class C LP Units	$4,198,655	($1,086,224)	($1,239,842)	($332,190)	$28,818	$1,569,217
Construction financing, loans and bank indebtedness	185,064	(90,858)	(14,008)	(41,500)	76,008	114,706
Class B LP Units	—	—	(317,249)	—	317,249	—
Unsecured Debentures	821,839	—	—	—	—	821,839
Convertible debentures	192,459	(169,802)	(86,305)	—	63,648	—
Lease Liabilities	169,506	(11,175)	(9,357)	(1,592)	430	147,812
Morguard Residential REIT Units	448,656	—	—	—	(448,656)	—
Deferred income tax liabilities	732,207	—	(116,747)	—	(615,460)	—
Accounts payable and accrued liabilities	263,358	(61,768)	(56,970)	(18,546)	8,779	134,853
Total liabilities	7,011,744	(1,419,827)	(1,840,478)	(393,828)	(569,184)	2,788,427
Equity / Adjusted shareholders' equity	4,256,628	(1,563,684)	(1,112,299)	(48,606)	2,116,128	3,648,167
Total liabilities and equity	$11,268,372	($2,983,511)	($2,952,777)	($442,434)	$1,546,944	$6,436,594

COMPUTATION FOR INTEREST COVERAGE RATIO

Twelve months ended June 30, 2019	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
Revenue from real estate properties	$866,530	($276,661)	($246,519)	$—	($6,749)	$336,601
Revenue from hotel properties	240,915	—	—	(160,633)	—	80,282
Property operating expenses	(378,945)	124,274	114,433	—	(8,173)	(148,411)
Hotel operating expenses	(185,786)	—	—	125,265	—	(60,521)
Net operating income	542,714	(152,387)	(132,086)	(35,368)	(14,922)	207,951
Management and advisory fees and distributions	57,339	—	—	—	46,958	104,297
Interest and other income	16,670	(28)	(147)	(241)	4,121	20,375
Sales of product and land, net of costs	1,720	—	—	—	—	1,720
Property management and corporate(1)	(96,458)	4,629	14,113	3,565	(13,133)	(87,284)
Other income (expense)(2)	2,861	—	—	(1,797)	—	1,064
Distributions from Morguard REIT and Morguard Residential REIT	—	—	—	—	49,354	49,354
EBITDA	$524,846	($147,786)	($118,120)	($33,841)	$72,378	$297,477
Interest expense	$224,644	($57,276)	($68,534)	($27,760)	$34,736	$105,810
Interest capitalized to development projects	891	(891)	—	—	—	—
Interest expense for interest coverage ratio	$225,535	($58,167)	($68,534)	($27,760)	$34,736	$105,810

(1) Morguard consolidated property management and corporate expense for the year ended June 30, 2019, includes a non-cash fair value adjustment relating to the Company's SARs liability and has been adjusted to add back the increase in SARs expense of $6,270.

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

CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	June 30, 2019	December 31, 2018
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**$111,154**	$110,166
Morguard Residential REIT [1]	March 31,2023	$20.20	4.50%	$85,500	$5,000	**81,305**	79,769
Temple - Series E [2]		—	—	—	—	**—**	38,064
						$192,459	$227,999

[1] The liability includes the fair value of the conversion option of $3,695 (December 31, 2018 - $2,469).

[2] Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

MORGUARD REIT

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

MORGUARD RESIDENTIAL REIT

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

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

TEMPLE HOTELS INC.

On April 8, 2019, Temple fully repaid the remaining 7.25% Series E convertible debentures in the amount of $40,647 ($39,636 excluding principal owned by the Company).

For the three and six months ended June 30, 2019, interest on convertible debentures net of accretion of $2,486 (2018 - $3,462) and $7,185 (2018 - $7,986), respectively, are included in interest expense.

MORGUARD RESIDENTIAL REIT UNITS

As at June 30, 2019, and December 31, 2018, the Company owned a 46.9% effective interest in Morguard Residential REIT through its ownership of 6,675,166 Units and 17,223,090 Class B LP Units. Although the Company owns less than 50% of Morguard Residential REIT, it continues to consolidate its investment on the basis of *de facto* control.

The non-controlling interest in Morguard Residential REIT Units has been presented as a liability. Morguard Residential REIT Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Morguard Residential REIT, all rights to and under the Units tendered for redemption shall be surrendered, and the holder shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the market price of the Units on the principal exchange market on which the Units are listed or quoted for trading during the 10 consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; or (ii) 100% of the closing market price on the principal exchange market on which the Units are listed or quoted for trading on the redemption date.

As at June 30, 2019, the Company valued the non-controlling interest in Morguard Residential REIT Units at $448,656 (December 31, 2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external Unitholders, the Company recorded a fair value loss for the three and six months ended June 30, 2019 of $6,287 (2018 - $37,771) and $40,088 (2018 - $8,902), respectively, in the consolidated statements of income.

BANK INDEBTEDNESS

As at June 30, 2019, the Company has operating lines of credit totalling $374,000 (December 31, 2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at June 30, 2019, the maximum amount that can be borrowed on the operating lines of credit is $358,191 (December 31, 2018 - $344,911) which includes deducting issued letters of credit in the amount of $11,768 (December 31, 2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at June 30, 2019, the Company had borrowed $146,894 (December 31, 2018 - $225,160) on its operating lines of credit.

The bank credit agreements include certain restrictive undertakings by the Company. As at June 30, 2019, the Company is in compliance with all undertakings.

LEASE LIABILITIES

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

As at	**June 30, 2019**	December 31, 2018
Balance, beginning of period	**$9,754**	$8,970
Adoption of IFRS 16	**161,614**	—
Principal payments	**(1,018)**	—
Additions	**277**	—
Dispositions	**(684)**	—
Foreign exchange gain (loss)	**(437)**	784
Balance, end of period	**$169,506**	$9,754

EQUITY

Total equity increased by $27,830 to $4,256,628 at June 30, 2019, compared to $4,228,798 at December 31, 2018.

The increase in equity was primarily the result of:

- Net income for the six months ended June 30, 2019, of $108,301;
- Contribution from non-controlling interest of $15,930; and
- An actuarial gain on defined benefit pension plans of $5,321.

These items were partially offset by:

- Unrealized foreign currency translation loss of $59,992;
- Change in ownership of Morguard REIT of $5,499;
- Increase in subsidiary ownership interest of $15,475;
- Repurchase of common shares through the Company's NCIB (defined below) amounting to $2,093;
- Non-controlling interest distributions of $13,882; and
- Dividends paid of $3,386.

During the six months ended June 30, 2019, 11,071 common shares were repurchased through the Company's normal course issuer bid ("NCIB") for cash consideration of $2,093.

At June 30, 2019 and August 7, 2019, 11,282,342 common shares were outstanding.

PART V

LIQUIDITY

Morguard uses a combination of existing cash, cash generated from operations, mortgages, bank indebtedness, project-specific financing and equity to finance its activities. For the three and six months ended June 30, 2019, Morguard received approximately $13,320 and $26,626 in recurring distributions and dividends from subsidiaries and affiliated entities.

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

THREE MONTHS ENDED JUNE 30, 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the three months ended June 30, 2019, was $73,059, compared to $59,461 in 2018. The cash provided by operating activities has been used to meet the Company's liquidity requirements, which consisted primarily of property re-leasing costs, maintenance costs and dividends to shareholders.

Cash Used in Investing Activities

Cash used in investing activities during the three months ended June 30, 2019, totalled $36,643, compared to cash used in investing activities of $199,907 in 2018. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of $16,234;
- Additions to hotel properties of $5,865;
- Additions to capital and intangible assets of $449;
- Net proceeds from sale of real estate properties of $1,666;
- Investment in properties under development of $9,187; and
- Investment in equity-accounted and other fund investments, net of $6,574.

Cash Provided by Financing Activities

Cash provided by financing activities during the three months ended June 30, 2019, totalled $18,133, compared to cash provided by financing of $89,815 in 2018. The cash provided by financing activities reflects:

- Repayment of mortgages due to extinguishments of $2,500;
- Mortgage principal repayments of $27,095;
- Principal payment of lease liabilities of $528;
- Net proceeds from bank indebtedness of $91,701;
- Redemption of convertible debentures of $39,636;
- Net proceeds from loans payable of $4,049;
- Dividends paid of $1,672;
- Distributions to non-controlling interest of $6,786;
- Contribution from non-controlling interest of $15,930;
- Common shares repurchased for cancellation of $779;
- Investment in Morguard REIT of $4,008;
- Increase in subsidiary ownership interest of $8,014; and
- An increase in restricted cash of $2,460.

SIX MONTHS ENDED JUNE 30, 2019

Cash Provided by Operating Activities

Cash provided by operating activities during the six months ended June 30, 2019, was $110,091, compared to $125,004 in 2018. The cash provided by operating activities has been used to meet the Company’s liquidity requirements, which consisted primarily of property re-leasing costs, maintenance costs and dividends to shareholders.

Cash Used in Investing Activities

Cash used in investing activities during the six months ended June 30, 2019, totalled $24,796, compared to cash used in investing activities of $337,517 in 2018. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of $27,778;
- Additions to hotel properties of $11,722;
- Additions to capital and intangible assets of $588;
- Net proceeds from sale of real estate properties of $38,716;
- Net proceeds from sale of hotel properties of $1,849;
- Investment in properties under development of $16,459; and
- Investment in equity-accounted and other fund investments, net of $8,814.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities during the six months ended June 30, 2019, totalled $5,409, compared to cash provided by financing of $194,596 in 2018. The cash used in financing activities reflects:

- Proceeds from new mortgages, net financing cost of $10,947;
- Repayment of mortgages on maturity of $16,253;
- Repayment of mortgages due to extinguishments of $20,831;
- Mortgage principal repayments of $54,713;
- Principal payment of lease liabilities of $1,018;
- Net repayment of bank indebtedness of $78,266;
- Proceeds from issuance of unsecured debentures, net of costs of $223,575;
- Redemption of convertible debentures of $39,636;
- Net repayment of loans payable of $18,732;
- Dividends paid of $3,340;
- Distributions to non-controlling interest of $11,572;
- Contribution from non-controlling interest of $15,930;
- Common shares repurchased for cancellation of $2,093;
- Investment in Morguard REIT of $4,008;
- Increase in subsidiary ownership interest of $8,014; and
- A decrease in restricted cash of $2,615.

PART VI

TRANSACTIONS WITH RELATED PARTIES

Related party transactions that are in the normal course of operations are subject to the same processes and controls as other transactions; that is, they are subject to standard approval procedures and management oversight, but are also considered by management for reasonability against fair value. Related party transactions that are found to be material are subject to review and approval by the Company's Audit Committee, which comprises Independent Directors.

PAROS ENTERPRISES LIMITED

Paros is the majority shareholder and ultimate parent of the Company. Paros is owned by the Company's Chairman and Chief Executive Officer, Mr. K. Rai Sahi. On December 10, 2013, Paros acquired $12,500 aggregate principal amount of the Company's Series E unsecured debentures.

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

TWC ENTERPRISES LIMITED

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the three and six months ended June 30, 2019, the Company received a management fee of $327 (2018 - $203) and $653 (2018 - $408), respectively, and for the three and six months ended June 30, 2019, paid rent and operating expenses of $169 (2018 - $189) and $345 (2018 - $339), respectively.

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at June 30, 2019 was $38,170 (December 31, 2018 - $47,809). During the three and six months ended June 30, 2019, the Company paid net interest of $397 (2018 - earned net interest of $63) and $800 (2018 - earned net interest of $138), respectively.

SHARE/UNIT PURCHASE AND OTHER LOANS

As at June 30, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,450 (December 31, 2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable on the consolidated balance sheets. As at June 30, 2019, the fair market value of the common shares/Units held as collateral is $94,905.

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018, have been prepared in accordance with IAS 34, *Interim Financial Reporting,* as issued by the IASB. The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies as described below, and should be read in conjunction with the most recent annual consolidated financial statements.

The MD&A for the year ended December 31, 2018, contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being the accounting policies relating to *de facto* control, estimates of fair value of real estate properties; estimating deferred tax assets and liabilities, revenue recognition, valuation of financial instruments and the determination of whether an acquisition represents a business combination or an asset acquisition. Management determined that as at June 30, 2019, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2018.

FINANCIAL INSTRUMENTS

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

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

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

Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using June 30, 2019, market rates for debts of similar terms. Based on these assumptions, the fair value as at June 30, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,328,655 (December 31, 2018 - $4,428,532), compared with the carrying value of $4,205,687 (December 31, 2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price. As at June 30, 2019, the fair value of the Unsecured Debentures has been estimated at $846,509 (December 31, 2018 - $603,624) compared with the carrying value of $825,000 (December 31, 2018 - $600,000).

The fair value of the convertible debentures liability is based on their market trading prices. As at June 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $198,781 (December 31, 2018 - $229,797), compared with the carrying value of $195,500 (December 31, 2018 - $235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the financial receivable using June 30, 2019, market rates for debt on similar terms. Based on these assumptions, as at June 30, 2019, the fair value of the finance lease receivable has been estimated at $56,257 (December 31, 2018 - $55,941).

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

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

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

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

Amendments to IAS 19, *Employee Benefits (2011)* ("IAS 19")
The amendments in *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* are:

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

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

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

CONTROLS AND PROCEDURES CONCERNING FINANCIAL INFORMATION

The financial certification 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 (COSO) Internal Control - Integrated Framework (2013). In order to ensure that the consolidated financial statements and MD&A present fairly, in all material respects, the financial position of the Company and the results of its operations, management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, has concluded that their design is adequate and effective as of and for the six months ended June 30, 2019. The Company's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design is effective as of and for the six months ended June 30, 2019.

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

PART VIII

SUMMARY OF QUARTERLY INFORMATION

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

(In thousands of dollars, except per common share amounts)	Total Revenue	NOI	Adjusted NOI	FFO	Net Income	Net Income Attributable to Common Shareholders	Net Income to Common Shareholders per share - basic/diluted
June 30, 2019	**$301,386**	**$150,145**	**$140,673**	**$62,311**	**$69,342**	**$69,722**	**$6.17**
March 31, 2019	290,645	104,574	132,875	53,566	38,959	33,486	2.97
December 31, 2018	301,302	142,611	134,863	52,410	68,451	80,889	7.13
September 30, 2018	294,033	145,384	136,885	56,909	54,688	46,750	4.11
June 30, 2018	287,725	160,235	135,185	73,166	95,894	75,604	6.62
March 31, 2018	274,818	99,745	123,268	49,911	125,025	116,608	10.10
December 31, 2017	287,523	139,663	131,934	68,596	109,084	115,300	9.73
September 30, 2017	279,612	138,374	131,440	55,448	23,264	27,552	2.33

SUMMARY OF QUARTERLY RESULTS

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

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

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

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

Significant Real Estate Property Transactions During the Six Months Period Ended June 30, 2019

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

During the second quarter the Company disposed one multi-suite residential property in U.S. consisting of 48 suites.

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

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

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

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

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

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

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

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

Revenue and Net Operating Income

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

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

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

Net Income Attributable to Common Shareholders

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

- The Company valued the Morguard Residential Units (presented as a liability under IFRS) based on the market value of the TSX-listed Units; over the last eight quarters there has been an upward trend in the trading price of the Morguard Residential Units resulting in a fair value loss recorded to net income;
- The Company has recorded a fair value gain on real estate properties for the years ended December 31, 2018 and 2017 as well as for the three and six months ended June 30, 2019, due to an overall increase in stabilized NOI and compression in capitalization rates;
- The Company has recorded deferred tax expense coinciding with the fair value gains on the Company's real estate properties. In addition, during the fourth quarter of 2017, the Company recorded a deferred tax recovery of $78,219 resulting from a U.S. federal tax rate decrease from 35% to 21% enacted on December 22, 2017;
- The Company recorded an impairment provision on Temple's hotel properties of $23,007 and $6,661 during the fourth quarter and second quarter of 2018, respectively.

SUBSEQUENT EVENTS

On July 24, 2019, the Company acquired an office property consisting of 157,350 square feet located in Ottawa, Ontario, for a purchase price of $52,000, excluding closing costs.

On August 1, 2019, the Company sold its 50% interest in an industrial property, consisting of 242,521 square feet located in Salaberry-de-Valleyfield, Québec, for gross proceeds of $16,125.

Subsequent to June 30, 2019, the Company increased its investment in marketable securities in the amount of $65,570.

CONSOLIDATED FINANCIAL STATEMENTS

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BALANCE SHEETS

In thousands of Canadian dollars

As at	Note	June 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Real estate properties	5	**$9,702,723**	$9,645,596
Hotel properties	6	**659,894**	666,078
Equity-accounted and other fund investments	7	**280,935**	281,464
Other assets	8	**292,749**	285,103
		10,936,301	10,878,241
Current assets			
Mortgages and loans receivable		**1,631**	1,686
Amounts receivable		**83,386**	76,879
Prepaid expenses and other		**41,003**	15,551
Cash		**190,106**	110,401
		316,126	204,517
Real estate property held for sale	5	**15,945**	—
		$11,268,372	$11,082,758
LIABILITIES AND EQUITY			
Non-current liabilities			
Mortgages payable	9	**$3,434,178**	$3,573,185
Unsecured debentures	10	**821,839**	597,697
Convertible debentures	11	**192,459**	225,936
Lease liabilities	13	**167,396**	9,754
Morguard Residential REIT Units	12	**448,656**	417,481
Deferred income tax liabilities		**732,207**	717,943
		5,796,735	5,541,996
Current liabilities			
Mortgages payable	9	**764,477**	789,516
Convertible debentures	11	**—**	2,063
Loans payable	21	**38,170**	60,309
Accounts payable and accrued liabilities	14	**265,468**	234,916
Bank indebtedness	15	**146,894**	225,160
		1,215,009	1,311,964
Total liabilities		**7,011,744**	6,853,960
EQUITY			
Shareholders' equity		**3,476,253**	3,431,366
Non-controlling interest		**780,375**	797,432
Total equity		**4,256,628**	4,228,798
		$11,268,372	$11,082,758

Contingencies 25

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF INCOME

In thousands of Canadian dollars, except per common share amounts

	Note	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenue from real estate properties	17	**$216,093**	$207,061	**$435,933**	$410,900
Revenue from hotel properties	17	**65,199**	61,997	**118,826**	115,849
Land rent arbitration settlement	25	**—**	17,250	**—**	17,250
Property operating expenses					
Property operating costs		**(46,252)**	(45,178)	**(92,096)**	(89,377)
Utilities		**(14,004)**	(13,379)	**(29,767)**	(28,552)
Realty taxes		**(22,734)**	(22,913)	**(85,506)**	(78,717)
Hotel operating expenses		**(48,157)**	(44,603)	**(92,671)**	(87,373)
Net operating income		**150,145**	160,235	**254,719**	259,980
OTHER REVENUE					
Management and advisory fees	17	**12,430**	14,401	**24,081**	28,838
Interest and other income		**6,007**	2,880	**10,043**	4,320
Sales of product and land		**1,657**	1,386	**3,148**	2,636
		20,094	18,667	**37,272**	35,794
EXPENSES					
Interest	18	**56,884**	51,700	**115,931**	101,751
Property management and corporate		**21,530**	22,841	**49,062**	45,269
Cost of sales of product and land		**1,139**	921	**2,267**	1,773
Amortization of hotel properties	6	**6,788**	6,106	**13,560**	12,618
Amortization of capital assets and other		**2,062**	1,578	**4,079**	3,202
Provision for impairment		**—**	6,661	**—**	6,661
		88,403	89,807	**184,899**	171,274
OTHER INCOME (EXPENSE)					
Fair value gain (loss), net	19	**9,314**	34,529	**30,270**	130,536
Equity income (loss) from investments	7	**(4,658)**	(394)	**(3,212)**	195
Other income (expenses)	20	**(1,146)**	3,482	**(961)**	5,681
		3,510	37,617	**26,097**	136,412
Income before income taxes		**85,346**	126,712	**133,189**	260,912
Provision for income taxes	22				
Current		**3,605**	7,992	**4,743**	9,674
Deferred		**12,399**	22,826	**20,145**	30,319
		16,004	30,818	**24,888**	39,993
Net income for the period		**$69,342**	$95,894	**$108,301**	$220,919
Net income (loss) attributable to:					
Common shareholders		**$69,722**	$75,604	**$103,208**	$192,212
Non-controlling interest		**(380)**	20,290	**5,093**	28,707
		$69,342	$95,894	**$108,301**	$220,919
Net income per common share attributable to:					
Common shareholders - basic and diluted	23	**$6.17**	$6.62	**$9.14**	$16.72

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

In thousands of Canadian dollars

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Net income for the period	**$69,342**	$95,894	**$108,301**	$220,919
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to net income:				
Unrealized foreign currency translation gain (loss)	**(30,520)**	30,322	**(59,992)**	65,242
Gain on interest rate swap agreement	**—**	72	**—**	161
	(30,520)	30,394	**(59,992)**	65,403
Deferred income tax recovery (provision)	**100**	(226)	**192**	(511)
	(30,420)	30,168	**(59,800)**	64,892
Items that will not be reclassified subsequently to net income:				
Actuarial gain (loss) on defined benefit pension plans	**(5,355)**	(8,167)	**5,321**	(4,294)
Deferred income tax recovery (provision)	**1,197**	2,167	**(1,633)**	1,139
	(4,158)	(6,000)	**3,688**	(3,155)
Other comprehensive income (loss)	**(34,578)**	24,168	**(56,112)**	61,737
Total comprehensive income for the period	**$34,764**	$120,062	**$52,189**	$282,656
Total comprehensive income attributable to:				
Common shareholders	**$36,943**	$97,802	**$50,743**	$249,492
Non-controlling interest	**(2,179)**	22,260	**1,446**	33,164
	$34,764	$120,062	**$52,189**	$282,656

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

	Note	Retained Earnings	Accumulated Other Comprehensive Income	Share Capital	Total Shareholders' Equity	Non-controlling Interest	Total
Shareholders' equity, January 1, 2018		$2,785,739	$189,982	$106,952	$3,082,673	$851,696	$3,934,369
Changes during the period:							
Net income		192,212	—	—	192,212	28,707	220,919
Other comprehensive income		—	57,280	—	57,280	4,457	61,737
Dividends		(3,438)	—	—	(3,438)	—	(3,438)
Distributions		—	—	—	—	(14,585)	(14,585)
Issuance of common shares		—	—	79	79	—	79
Repurchase of common shares		(68,252)	—	(3,624)	(71,876)	—	(71,876)
Adjustment on adoption of IFRS 9		17,315	(17,315)	—	—	—	—
Change in ownership of Morguard REIT		12,433	—	—	12,433	(28,207)	(15,774)
Change in ownership of Temple Hotels Inc.		312	—	—	312	(2,480)	(2,168)
Shareholders' equity, June 30, 2018		$2,936,321	$229,947	$103,407	$3,269,675	$839,588	$4,109,263
Changes during the period:							
Net income (loss)		127,639	—	—	127,639	(4,500)	123,139
Other comprehensive income		—	43,407	—	43,407	3,180	46,587
Dividends		(3,404)	—	—	(3,404)	—	(3,404)
Distributions		—	—	—	—	(15,193)	(15,193)
Issuance of common shares		—	—	60	60	—	60
Repurchase of common shares		(19,468)	—	(1,031)	(20,499)	—	(20,499)
Change in ownership of Morguard REIT		14,488	—	—	14,488	(25,643)	(11,155)
Shareholders' equity, December 31, 2018		$3,055,576	$273,354	$102,436	$3,431,366	$797,432	$4,228,798
Changes during the period:							
Net income		**103,208**	**—**	**—**	**103,208**	**5,093**	**108,301**
Other comprehensive loss		**—**	**(52,465)**	**—**	**(52,465)**	**(3,647)**	**(56,112)**
Dividends	16(a)	**(3,386)**	**—**	**—**	**(3,386)**	**—**	**(3,386)**
Distributions		**—**	**—**	**—**	**—**	**(13,882)**	**(13,882)**
Issuance of common shares	16(a)	**—**	**—**	**46**	**46**	**—**	**46**
Repurchase of common shares	16(a)	**(1,993)**	**—**	**(100)**	**(2,093)**	**—**	**(2,093)**
Contribution from non-controlling interest	16(b)	**—**	**—**	**—**	**—**	**15,930**	**15,930**
Change in ownership of Temple Hotels Inc.	16(b)	**(2,498)**	**—**	**—**	**(2,498)**	**2,498**	**—**
Change in ownership of Morguard REIT	16(b)	**2,053**	**—**	**—**	**2,053**	**(7,552)**	**(5,499)**
Increase in subsidiary ownership interest	16(b)	**22**	**—**	**—**	**22**	**(15,497)**	**(15,475)**
Shareholders' equity, June 30, 2019		**$3,152,982**	**$220,889**	**$102,382**	**$3,476,253**	**$780,375**	**$4,256,628**

See accompanying notes to the condensed consolidated financial statements.

STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

	Note	Three months ended June 30 **2019**	Three months ended June 30 2018	Six months ended June 30 **2019**	Six months ended June 30 2018
OPERATING ACTIVITIES					
Net income for the period		**$69,342**	$95,894	**$108,301**	$220,919
Add (deduct) items not affecting cash	24(a)	**3,502**	(12,493)	**24,064**	(73,806)
Distributions from equity-accounted investments	7	**846**	913	**1,705**	1,920
Land held for residential development and sale		**—**	(46)	**—**	(102)
Additions to development property - inventory		**—**	(1,646)	**—**	(2,100)
Additions to tenant incentives and leasing commissions	5	**(1,605)**	(2,356)	**(2,511)**	(3,654)
Net change in operating assets and liabilities	24(b)	**974**	(20,805)	**(21,468)**	(18,173)
Cash provided by operating activities		**73,059**	59,461	**110,091**	125,004
INVESTING ACTIVITIES					
Additions to real estate properties and tenant improvements	5	**(16,234)**	(125,278)	**(27,778)**	(238,848)
Additions to hotel properties	6	**(5,865)**	(4,352)	**(11,722)**	(10,582)
Additions to capital and intangible assets		**(449)**	(1,776)	**(588)**	(2,669)
Proceeds from sale of real estate properties, net	5	**1,666**	2,015	**38,716**	2,015
Proceeds from the sale of hotel properties, net	6	**—**	—	**1,849**	—
Investment in properties under development	5	**(9,187)**	(30,153)	**(16,459)**	(49,832)
Investment in equity-accounted and other fund investments, net	7	**(6,574)**	(1,984)	**(8,814)**	(3,887)
Investment in marketable securities		**—**	(7,578)	**—**	(14,763)
Increase in mortgages and loans receivable		**—**	(40,381)	**—**	(40,381)
Decrease in mortgages and loans receivable		**—**	9,580	**—**	21,430
Cash used in investing activities		**(36,643)**	(199,907)	**(24,796)**	(337,517)
FINANCING ACTIVITIES					
Proceeds from new mortgages		**—**	252,990	**11,253**	255,050
Financing costs on new mortgages		**(69)**	(1,377)	**(306)**	(1,404)
Repayment of mortgages					
Repayments on maturity		**—**	(138,844)	**(16,253)**	(139,120)
Repayments due to mortgage extinguishments		**(2,500)**	—	**(20,831)**	—
Principal instalment repayments		**(27,095)**	(27,171)	**(54,713)**	(54,639)
Principal payment of lease liabilities		**(528)**	—	**(1,018)**	—
Proceeds from bank indebtedness		**157,166**	73,736	**206,648**	397,853
Repayment of bank indebtedness		**(65,465)**	(219,287)	**(284,914)**	(342,632)
Proceeds from issuance of unsecured debentures, net of costs	10	**—**	198,805	**223,575**	198,805
Proceeds from issuance of convertible debentures, net of costs	11	**—**	—	**—**	77,125
Redemption of convertible debentures	11	**(39,636)**	(33,819)	**(39,636)**	(88,796)
Proceeds from construction financing		**—**	383	**—**	811
Proceeds from (repayment of) loans payable, net		**4,049**	(1,627)	**(18,732)**	—
Dividends paid		**(1,672)**	(1,674)	**(3,340)**	(3,359)
Distributions to non-controlling interest		**(6,786)**	(7,226)	**(11,572)**	(12,233)
Contribution from non-controlling interest	16(b)	**15,930**	—	**15,930**	—
Common shares repurchased for cancellation	16(a)	**(779)**	(2,737)	**(2,093)**	(71,876)
Investment in Morguard REIT	16(b)	**(4,008)**	—	**(4,008)**	(15,774)
Investment in Temple Hotels Inc.	16(b)	**—**	(451)	**—**	(2,168)
Increase in subsidiary ownership interest	16(b)	**(8,014)**	—	**(8,014)**	—
Decrease (increase) in restricted cash		**(2,460)**	(1,886)	**2,615**	(3,047)
Cash provided by (used in) financing activities		**18,133**	89,815	**(5,409)**	194,596
Net increase (decrease) in cash during the period		**54,549**	(50,631)	**79,886**	(17,917)
Net effect of foreign currency translation on cash balance		**(3,400)**	817	**(181)**	(2,491)
Cash, beginning of period		**138,957**	163,856	**110,401**	134,450
Cash, end of period		**$190,106**	$114,042	**$190,106**	$114,042

See accompanying notes to the condensed consolidated financial statements.

NOTES

For the three and six months ended June 30, 2019 and 2018
In thousands of Canadian dollars, except per common share and Unit amounts and unless otherwise noted

NOTE 1

NATURE AND DESCRIPTION OF COMPANY

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

NOTE 2

STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Foreign Exchange

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

	2019	2018
Canadian dollar to United States dollar exchange rates:		
- As at June 30	**$0.7641**	$0.7594
- As at December 31	**—**	0.7330
- Average for the three months ended June 30	**0.7476**	0.7745
- Average for the six months ended June 30	**0.7499**	0.7824
United States dollar to Canadian dollar exchange rates:		
- As at June 30	**1.3087**	1.3168
- As at December 31	**—**	1.3642
- Average for the three months ended June 30	**1.3377**	1.2911
- Average for the six months ended June 30	**1.3336**	1.2781

NOTE 3

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

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

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

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

Amendments to IAS 19, *Employee Benefits (2011)* ("IAS 19")
The amendments in *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* are:

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

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

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

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

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

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

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

NOTE 4
SUBSIDIARIES WITH NON-CONTROLLING INTEREST

Morguard North American Residential Real Estate Investment Trust ("Morguard Residential REIT" or "MRG")

As at June 30, 2019, and December 31, 2018, the Company owned a 46.9% effective interest in Morguard Residential REIT through its ownership of 6,675,166 Units and 17,223,090 Class B LP Units. The Company continues to consolidate its investment in Morguard Residential REIT on the basis of *de facto* control in accordance with IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). Refer to the Company's most recent annual audited consolidated financial statements for the factors that continue to support the conclusion that the Company has *de facto* control of Morguard Residential REIT.

During the three months ended June 30, 2019, Morguard Residential REIT recorded distributions of $5,728, or $0.1698 per Unit (2018 - $5,561, or $0.165 per Unit), of which $1,133 was paid to the Company (2018 - $1,101) and $4,595 was paid to the remaining Unitholders (2018 - $4,460). In addition, during the three months ended June 30, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $2,925 (2018 - $2,842).

During the six months ended June 30, 2019, Morguard Residential REIT recorded distributions of $11,455, or $0.3396 per Unit (2018 - $11,121 or $0.33 per Unit), of which $2,266 was paid to the Company (2018 - $2,202) and $9,189 was paid to the remaining Unitholders (2018 - $8,919). In addition, during the six months ended June 30, 2019, Morguard Residential REIT paid distributions to the Company on the Class B LP Units of $5,849 (2018 - $5,684).

Morguard Real Estate Investment Trust ("Morguard REIT" or "MRT")

As at June 30, 2019, the Company owned 35,295,089 Units (December 31, 2018 - 34,957,041 Units) of Morguard REIT, which represents a 58.1% (December 31, 2018 - 57.6%) ownership interest.

During the three months ended June 30, 2019, Morguard REIT recorded distributions of $14,569, or $0.24 per Unit (2018 - $14,564, or $0.24 per Unit), of which $8,416 was paid to the Company (2018 - $8,160) and $6,153 was paid to the remaining Unitholders (2018 - $6,404).

During the six months ended June 30, 2019, Morguard REIT recorded distributions of $29,136, or $0.48 per Unit (2018 - $29,131, or $0.48 per Unit), of which $16,806 was paid to the Company (2018 - $16,320) and $12,330 was paid to the remaining Unitholders (2018 - $12,811).

Temple Hotels Inc. ("Temple")

As at June 30, 2019, the Company owned 54,492,911 common shares (December 31, 2018 - 14,685,907 common shares) of Temple, which represents a 72.6% (December 31, 2018 - 58.7%) ownership interest.

The following summarizes the results of Morguard REIT, Morguard Residential REIT and Temple before any intercompany eliminations and the corresponding non-controlling interest in the equity of Morguard REIT, Morguard Residential REIT and Temple. The Units issued by Morguard Residential REIT that are not held by the Company are presented as equity on Morguard Residential REIT's balance sheet, but are classified as a liability on the Company's consolidated balance sheets (Note 12).

As at	June 30, 2019			December 31, 2018		
	MRT	**MRG**	**Temple**	MRT	MRG	Temple
Non-current assets	**$2,920,279**	**$2,904,340**	**$473,787**	$2,938,915	$2,973,694	$484,730
Current assets	**61,727**	**48,437**	**28,622**	38,153	37,775	26,345
Total assets	**$2,982,006**	**$2,952,777**	**$502,409**	$2,977,068	$3,011,469	$511,075
Non-current liabilities	**$1,083,704**	**$1,639,975**	**$151,775**	$1,096,488	$1,699,959	$178,507
Current liabilities	**350,896**	**200,503**	**241,376**	319,607	183,649	296,536
Total liabilities	**$1,434,600**	**$1,840,478**	**$393,151**	$1,416,095	$1,883,608	$475,043
Equity	**$1,547,406**	**$1,112,299**	**$109,258**	$1,560,973	$1,127,861	$36,032
Non-controlling interest	**$649,829**	**$590,686**	**$29,948**	$662,904	$598,793	$14,691

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

For the three months ended June 30			2019			2018
	MRT	**MRG**	**Temple**	MRT	MRG	Temple
Revenue	**$67,008**	**$60,960**	**$40,598**	$68,029	$59,973	$43,094
Expenses	**(45,577)**	**(48,595)**	**(41,994)**	(44,649)	(51,048)	(47,349)
Fair value gain (loss) on real estate properties, net	**(24,602)**	**30,752**	**—**	22,060	34,358	—
Fair value loss on Class B LP Units	**—**	**(1,205)**	**—**	—	(23,596)	—
Net income (loss) for the period	**($3,171)**	**$41,912**	**($1,396)**	$45,440	$19,687	($4,255)
Non-controlling interest	**($1,249)**	**$22,258**	**($369)**	$19,992	$10,461	($1,977)

For the three months ended June 30			2019			2018
	MRT	**MRG**	**Temple**	MRT	MRG	Temple
Cash provided by operating activities	**$20,407**	**$17,840**	**$2,371**	$18,995	$25,337	$1,647
Cash used in investing activities	**(9,041)**	**(6,268)**	**(1,638)**	(21,580)	(20,672)	(1,796)
Cash provided by (used in) financing activities	**(7,447)**	**(9,718)**	**(3,751)**	63	(509)	(35,899)
Net increase (decrease) in cash during the period	**$3,919**	**$1,854**	**($3,018)**	($2,522)	$4,156	($36,048)

For the six months ended June 30			2019			2018
	MRT	**MRG**	**Temple**	MRT	MRG	Temple
Revenue	**$137,462**	**$123,218**	**$75,129**	$137,274	$118,067	$80,305
Expenses	**(91,804)**	**(114,292)**	**(83,311)**	(88,182)	(123,802)	(89,882)
Fair value gain (loss) on real estate properties, net	**(30,282)**	**58,585**	**—**	16,065	105,828	—
Fair value loss on Class B LP Units	**—**	**(21,873)**	**—**	—	—	—
Net income (loss) for the period	**$15,376**	**$45,638**	**($8,182)**	$65,157	$100,093	($9,577)
Non-controlling interest	**$6,615**	**$24,236**	**($3,171)**	$28,667	$53,125	($4,269)

For the six months ended June 30			2019			2018
	MRT	**MRG**	**Temple**	MRT	MRG	Temple
Cash provided by operating activities	**$33,771**	**$26,244**	**$656**	$44,291	$29,280	$3,274
Cash provided by (used in) investing activities	**(17,112)**	**25,496**	**(519)**	(31,959)	(24,880)	(5,080)
Cash provided by (used in) financing activities	**(12,624)**	**(44,079)**	**82**	(11,631)	(7,080)	2,631
Net increase (decrease) in cash during the period	**$4,035**	**$7,661**	**$219**	$701	($2,680)	$825

NOTE 5
REAL ESTATE PROPERTIES

Real estate properties consist of the following:

As at	**June 30, 2019**	December 31, 2018
Income producing properties	**$9,592,112**	$9,511,302
Properties under development	**48,193**	56,717
Land held for development	**78,363**	77,577
	$9,718,668	$9,645,596
Real estate properties	**$9,702,723**	$9,645,596
Real estate properties held for sale	**15,945**	—
Total	**$9,718,668**	$9,645,596

Real estate properties held for sale are assets that the Company intends to sell rather than hold on a long-term basis and meet the criteria established in IFRS 5 for separate classification. As at June 30, 2019, the Company's real estate properties held for sale is comprised of a 50% interest in an industrial property located in Québec.

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

	Income Producing Properties	Properties Under Development	Land Held for Development	Total
Balance as at December 31, 2018	**$9,511,302**	**$56,717**	**$77,577**	**$9,645,596**
Additions:				
Capital expenditures	**20,868**	**—**	**—**	**20,868**
Development expenditures	**—**	**16,394**	**65**	**16,459**
Tenant improvements, incentives and leasing commissions	**9,421**	**—**	**—**	**9,421**
Transfers	**24,131**	**(24,131)**	**—**	**—**
Dispositions	**(63,899)**	**—**	**—**	**(63,899)**
Adoption of IFRS 16 (Note 3)	**153,610**	**—**	**—**	**153,610**
Fair value gain (loss), net	**62,478**	**(57)**	**1,437**	**63,858**
Foreign currency translation	**(117,553)**	**(730)**	**(716)**	**(118,999)**
Other	**(8,246)**	**—**	**—**	**(8,246)**
Balance as at June 30, 2019	**$9,592,112**	**$48,193**	**$78,363**	**$9,718,668**
Real estate property held for sale (Note 29)				**(15,945)**
Real estate properties				**$9,702,723**

Transactions Completed During the Six Months Ended June 30, 2019

Acquisitions

On May 22, 2019, the Company acquired partial interests in three properties controlled by the Company located in Mississauga, Ontario, for gross proceeds of $15,628, including closing costs, and the Company assumed the partial interest of the mortgages secured by the properties amounting to $7,614.

Dispositions

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

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

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

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

On April 30, 2019, the Company sold a property located in Harahan, Louisiana, comprising 48 suites, for gross proceeds of $4,428 (US$3,298), including closing cost, and the purchaser assumed the mortgage secured by the property in the amount of $2,852 (US$2,125).

On June 21, 2019, the Company sold a property located in Victoriaville, Québec, for net proceeds of $90.

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

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

Capitalization Rates

As at June 30, 2019, and December 31, 2018, the Company had its portfolio internally appraised. In addition, the Company's U.S. portfolio is appraised by independent U.S. real estate appraisal firms on a three-year cycle.

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

Using the direct capitalization approach, the multi-suite residential, retail, office and industrial properties were valued using capitalization rates in the range of 3.5% to 8.8% (December 31, 2018 - 3.5% to 12.0%), resulting in an overall weighted average capitalization rate of 5.5% (December 31, 2018 - 5.3%).

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

	June 30, 2019					December 31, 2018				
As at	**Occupancy Rates**		**Capitalization Rates**			Occupancy Rates		Capitalization Rates		
	Max.	**Min.**	**Max.**	**Min.**	**Weighted Average**	Max.	Min.	Max.	Min.	Weighted Average
Multi-suite residential	**98.0%**	**92.0%**	**6.8%**	**3.5%**	**4.5%**	98.0%	90.0%	7.8%	3.5%	4.5%
Retail	**100.0%**	**85.0%**	**8.8%**	**5.3%**	**6.5%**	100.0%	80.0%	12.0%	5.3%	6.4%
Office	**100.0%**	**90.0%**	**7.8%**	**4.3%**	**6.1%**	100.0%	90.0%	7.5%	4.3%	6.0%
Industrial	**100.0%**	**95.0%**	**7.0%**	**5.0%**	**5.7%**	100.0%	95.0%	7.5%	5.0%	5.8%

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

As at	June 30, 2019			December 31, 2018		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**9.5%**	**6.0%**	**7.0%**	10.3%	6.0%	6.9%
Terminal cap rate	**9.0%**	**5.3%**	**6.0%**	9.5%	5.3%	5.9%
Office						
Discount rate	**8.0%**	**5.3%**	**6.4%**	8.0%	5.1%	6.4%
Terminal cap rate	**7.3%**	**4.3%**	**5.7%**	7.3%	4.3%	5.7%
Industrial						
Discount rate	**7.5%**	**6.0%**	**6.5%**	7.3%	6.0%	6.5%
Terminal cap rate	**7.0%**	**5.0%**	**5.8%**	6.8%	5.0%	5.8%

Fair values are most sensitive to changes in discount rates, capitalization rates and stabilized or forecast net operating income. Generally, an increase in stabilized net operating income will result in an increase in the fair value of the income producing properties, and an increase in capitalization rates will result in a decrease in the fair value of the properties. The capitalization rate magnifies the effect of a change in stabilized net operating income, with a lower capitalization rate resulting in a greater impact on the fair value of the property than a higher capitalization rate. If the weighted average stabilized capitalization rates were to increase or decrease by 25 basis points (assuming no change in stabilized net operating income), the value of the income producing properties as at June 30, 2019, would decrease by $411,419 and increase by $453,137, respectively.

The sensitivity of the fair values of the Company's income producing properties as at June 30, 2019, and December 31, 2018, is set out in the table below:

As at	June 30, 2019		December 31, 2018	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($229,784)**	**$256,366**	($241,337)	$270,194
Retail	**(90,580)**	**97,848**	(94,615)	102,416
Office	**(84,646)**	**91,929**	(84,780)	92,160
Industrial	**(6,409)**	**6,994**	(6,266)	6,826
	($411,419)	**$453,137**	($426,998)	$471,596

NOTE 6
HOTEL PROPERTIES

Hotel properties consist of the following:

As at June 30, 2019	Cost	Accumulated Impairment Provision	Accumulated Amortization	Net Book Value
Land	**$97,111**	**($2,407)**	**$—**	**$94,704**
Buildings	**594,143**	**(46,382)**	**(40,569)**	**507,192**
Furniture, fixtures, equipment and other	**101,833**	**(5,469)**	**(39,933)**	**56,431**
Right-of-use asset - land lease	**1,596**	**—**	**(29)**	**1,567**
	$794,683	**($54,258)**	**($80,531)**	**$659,894**

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

Transactions in hotel properties for the six months ended June 30, 2019, are summarized as follows:

As at June 30, 2019	Opening Net Book Value	Adoption of IFRS 16 (Note 3)	Additions	Disposition	Amortization	Closing Net Book Value
Land	**$94,704**	**$—**	**$—**	**$—**	**$—**	**$94,704**
Buildings	**510,077**	**—**	**8,750**	**(4,982)**	**(6,653)**	**507,192**
Furniture, fixtures, equipment and other	**61,297**	**—**	**2,972**	**(960)**	**(6,878)**	**56,431**
Right-of-use asset - land lease	**—**	**2,280**	**—**	**(684)**	**(29)**	**1,567**
	$666,078	**$2,280**	**$11,722**	**($6,626)**	**($13,560)**	**$659,894**

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

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

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

NOTE 7
EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at	June 30, 2019	December 31, 2018
Joint ventures	**$49,605**	$52,803
Associates	**127,345**	124,677
Equity-accounted investments	**176,950**	177,480
Other real estate fund investments	**103,985**	103,984
Equity-accounted and other fund investments	**$280,935**	$281,464

The following are the Company's significant equity-accounted investments as at June 30, 2019, and December 31, 2018:

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$22,667**	$24,746
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**3,041**	7,031
Greypoint Capital L.P.(1)	Toronto, ON	Joint Venture	Other	**26.8%**	36.4%	**8,127**	5,614
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**11,029**	10,771
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,741**	4,641
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**61,298**	52,646
Marquee at Block 37	Chicago, IL	Associate	Residential	**49.0%**	49.0%	**46,882**	53,476
MIL Industrial Fund II LP(2)	Various	Associate	Industrial	**18.8%**	18.8%	**19,165**	18,555
						$176,950	$177,480

(1) Comprises an investment in Greypoint Capital L.P. of 36.4% and Greypoint Capital L.P. II of 17.1%.
(2) The Company accounts for its investment using the equity method since the Company has the ability to exercise significant influence as a result of its role as general partner; however, it does not control the fund.

Equity-accounted investments

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

As at	June 30, 2019	December 31, 2018
Balance, beginning of period	**$177,480**	$187,365
Additions	**8,814**	7,786
Share of net loss	**(3,212)**	(22,654)
Distributions received	**(1,705)**	(4,472)
Foreign exchange gain (loss)	**(4,427)**	9,455
Balance, end of period	**$176,950**	$177,480

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

As at	June 30, 2019			December 31, 2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Non-current assets	**$195,054**	**$759,126**	**$954,180**	$206,391	$778,155	$984,546
Current assets	**33,169**	**14,179**	**47,348**	29,438	9,756	39,194
Total assets	**$228,223**	**$773,305**	**$1,001,528**	$235,829	$787,911	$1,023,740
Non-current liabilities	**$114,338**	**$329,904**	**$444,242**	$116,410	$343,393	$459,803
Current liabilities	**7,909**	**112,589**	**120,498**	8,720	116,734	125,454
Total liabilities	**$122,247**	**$442,493**	**$564,740**	$125,130	$460,127	$585,257
Net assets	**$105,976**	**$330,812**	**$436,788**	$110,699	$327,784	$438,483
Equity-accounted investments	**$49,605**	**$127,345**	**$176,950**	$52,803	$124,677	$177,480

For the three months ended June 30	2019			2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$8,893**	**$9,649**	**$18,542**	$8,853	$8,806	$17,659
Expenses	**(5,961)**	**(8,885)**	**(14,846)**	(5,852)	(7,517)	(13,369)
Fair value gain (loss) on real estate properties, net	**(12,110)**	**(1,129)**	**(13,239)**	(2,908)	1,178	(1,730)
Net income (loss) for the period	**($9,178)**	**($365)**	**($9,543)**	$93	$2,467	$2,560
Income (loss) in equity-accounted investments	**($4,644)**	**($14)**	**($4,658)**	($12)	($382)	($394)

For the six months ended June 30	2019			2018		
	Joint Venture	Associate	Total	Joint Venture	Associate	Total
Revenue	**$16,894**	**$19,420**	**$36,314**	$17,714	$17,542	$35,256
Expenses	**(11,641)**	**(18,438)**	**(30,079)**	(11,764)	(13,683)	(25,447)
Fair value gain (loss) on real estate properties, net	**(13,106)**	**(317)**	**(13,423)**	(2,796)	(1,680)	(4,476)
Net income (loss) for the period	**($7,853)**	**$665**	**($7,188)**	$3,154	$2,179	$5,333
Income (loss) in equity-accounted investments	**($4,054)**	**$842**	**($3,212)**	$1,325	($1,130)	$195

(b) Income Recognized from Other Fund Investments:

Other Real Estate Fund Investments

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Distribution income	**$717**	$738	**$1,468**	$1,398
Fair value gain (loss) for the period (Note 19)	**(705)**	88	**4,330**	1,254
Income from other real estate fund investments	**$12**	$826	**$5,798**	$2,652

The Company's two fund investments hold multi-suite residential, retail and office investment properties located in the U.S. The funds are classified and measured at fair value through profit or loss ("FVTPL"). Gains or losses arise from the change in the fair value of the underlying real estate properties held by the funds (Level 3) and from foreign exchange currency translation. Distributions received from these funds are recorded in other income (expense) on the consolidated statements of income.

NOTE 8
OTHER ASSETS

Other assets consist of the following:

As at	June 30, 2019	December 31, 2018
Accrued pension benefit asset	**$79,183**	$73,981
Goodwill	**24,488**	24,488
Capital assets, net	**11,451**	11,729
Right-of-use asset - office lease (Note 3)	**5,355**	—
Intangible assets, net	**36,877**	39,749
Inventory	**3,109**	3,199
Inventory - development properties	**444**	444
Finance lease receivable	**56,257**	55,941
Investment in marketable securities	**41,591**	38,606
Restricted cash	**33,193**	36,117
Other	**801**	849
	$292,749	$285,103

Finance Lease Receivable

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

NOTE 9
MORTGAGES PAYABLE

Mortgages payable consist of the following:

As at	June 30, 2019	December 31, 2018
Mortgages payable	**$4,205,687**	$4,369,811
Mark-to-market adjustments, net	**14,596**	17,455
Deferred financing costs	**(21,628)**	(24,565)
	$4,198,655	$4,362,701
Current	**$764,477**	$789,516
Non-current	**3,434,178**	3,573,185
	$4,198,655	$4,362,701
Range of interest rates	**2.25 - 8.95%**	2.25 - 8.95%
Weighted average contractual interest rate	**3.89%**	3.87%
Estimated fair value of mortgages payable	**$4,328,655**	$4,428,532

The aggregate principal repayments and balances maturing of the mortgages payable as at June 30, 2019, together with the weighted average contractual interest rate on debt maturing in the next five years and thereafter, are as follows:

	Principal Instalment Repayments	Balances Maturing	Total	Weighted Average Contractual Interest Rate
2019 (remainder of year)	$51,277	$636,529	$687,806	4.49%
2020	99,233	164,293	263,526	4.76%
2021	94,122	391,688	485,810	4.37%
2022	87,541	382,989	470,530	3.66%
2023	66,541	529,539	596,080	3.60%
Thereafter	216,080	1,485,855	1,701,935	3.64%
	$614,794	$3,590,893	$4,205,687	3.89%

The Company's first mortgages are registered against specific real estate assets. As at June 30, 2019, mortgages payable mature between 2019 and 2058 and have a weighted average term to maturity of 4.8 years (December 31, 2018 - 5.2 years). Approximately 93.5% of the Company's mortgages have fixed interest rates.

Approximately 92% of the Company's real estate and hotel properties, and related rental revenue have been pledged as collateral for the mortgages payable.

Some of Temple's mortgages payable require it to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at June 30, 2019, Temple was not in compliance with seven (December 31, 2018 - seven) debt service covenants affecting seven (December 31, 2018 - seven) mortgage loans amounting to $102,904 (December 31, 2018 - $104,525). Subsequent to June 30, 2019, the Company received a waiver in regard to one mortgage loan with an aggregate amount of $14,497. None of the lenders has demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. As a result, the current portion of debt includes $33,623 scheduled to retire after June 30, 2020.

NOTE 10
UNSECURED DEBENTURES

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

As at	Maturity Date	Coupon Interest Rate	June 30, 2019	December 31, 2018
Series B senior unsecured debentures	November 18, 2020	4.013%	**$200,000**	$200,000
Series C senior unsecured debentures	September 15, 2022	4.333%	**200,000**	200,000
Series D senior unsecured debentures	May 14, 2021	4.085%	**200,000**	200,000
Series E senior unsecured debentures	January 25, 2024	4.715%	**225,000**	—
Unamortized financing costs			**(3,161)**	(2,303)
			$821,839	$597,697

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

On September 15, 2017, the Company issued $200,000 (net proceeds including issuance costs - $198,800) of Series C senior unsecured debentures due on September 15, 2022. Interest on the Series C senior unsecured debentures is payable semi-annually, not in advance, on March 15 and September 15 of each year. The Company has the option to redeem the Series C senior unsecured debentures at a redemption price equal to the greater of the

Canada Yield Price or par plus any accrued and unpaid interest. The Canada Yield Price is defined as the amount that would return a yield on investment for the remaining term to maturity equal to the Canada Bond Yield with an equal term to maturity plus a spread of 0.635%.

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

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

For the three and six months ended June 30, 2019, interest on the Unsecured Debentures of $8,843 (2018 - $6,594) and $16,863 (2018 - $12,074), respectively, are included in interest expense (Note 18).

NOTE 11
CONVERTIBLE DEBENTURES

Convertible debentures consist of the following:

As at	Maturity Date	Conversion Price	Coupon Interest Rate	Principal Balance	Principal Owned by the Company	June 30, 2019	December 31, 2018
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**$111,154**	$110,166
Morguard Residential REIT(1)	March 31, 2023	$20.20	4.50%	$85,500	$5,000	**81,305**	79,769
Temple - Series E(2)	—	—	—	—	—	**—**	38,064
						$192,459	$227,999
Current						**$—**	$2,063
Non-current						**192,459**	225,936
						$192,459	$227,999

(1) As at June 30, 2019, the liability includes the fair value of the conversion option of $3,695 (December 31, 2018 - $2,469).
(2) Temple delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, Temple repaid the 7.25% Series E convertible debentures.

Morguard REIT

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

Morguard Residential REIT

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

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

Temple Hotels Inc.

On April 8, 2019, Temple fully repaid the remaining 7.25% Series E convertible debentures in the amount of $40,647 ($39,636 excluding principal owned by the Company).

For the three and six months ended June 30, 2019, interest on convertible debentures net of accretion of $2,486 (2018 - $3,462) and $7,185 (2018 - $7,986), respectively, are included in interest expense (Note 18).

NOTE 12

MORGUARD RESIDENTIAL REIT UNITS

The Units issued by Morguard Residential REIT that are not held by the Company are classified as equity on Morguard Residential REIT's balance sheet but are classified as a liability on the Company's consolidated balance sheets. Morguard Residential REIT Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt of the redemption notice by Morguard Residential REIT, all rights to and under the units tendered for redemption shall be surrendered, and the holder shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the market price of the Units on the principal exchange market on which the Units are listed or quoted for trading during the 10 consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; or (ii) 100% of the closing market price on the principal exchange market on which the Units are listed or quoted for trading on the redemption date.

As at June 30, 2019, the Company valued the non-controlling interest in the Morguard Residential REIT Units at $448,656 (December 31, 2018 - $417,481) and classified the Units as a liability on the consolidated balance sheets. Due to the change in the market value of the Units and the distributions paid to external unitholders, the Company recorded a fair value loss for the three and six months ended June 30, 2019 of $6,287 (2018 - $37,771) and $40,088 (2018 - $8,902), respectively, in the consolidated statements of income (Note 19).

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Fair value gain (loss) on Morguard Residential REIT Units	**($1,692)**	($33,311)	**($30,899)**	$17
Distributions to external Unitholders (Note 4)	**(4,595)**	(4,460)	**(9,189)**	(8,919)
Fair value loss on Morguard Residential REIT Units	**($6,287)**	($37,771)	**($40,088)**	($8,902)

NOTE 13

LEASE LIABILITIES

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

As at	**June 30, 2019**	December 31, 2018
Balance, beginning of period	**$9,754**	$8,970
Adoption of IFRS 16 (Note 3)	**161,614**	—
Principal payments	**(1,018)**	—
Additions	**277**	—
Dispositions (Note 6)	**(684)**	—
Foreign exchange gain (loss)	**(437)**	784
Balance, end of period	**$169,506**	$9,754
Current (Note 14)	**$2,110**	$—
Non-current	**167,396**	9,754
	$169,506	$9,754
Weighted average borrowing rate	**5.75%**	4.96%

NOTE 14
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at	June 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	**$209,299**	$185,921
Tenant deposits	**27,196**	26,260
Stock appreciation rights ("SARs") liability	**22,805**	20,105
Lease liability (Note 13)	**2,110**	—
Other	**4,058**	2,630
	$265,468	$234,916

NOTE 15
BANK INDEBTEDNESS

As at June 30, 2019, the Company has operating lines of credit totalling $374,000 (December 31, 2018 - $364,000), the majority of which can be borrowed in either Canadian or United States dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. As at June 30, 2019, the maximum amount that can be borrowed on the operating lines of credit is $358,191 (December 31, 2018 - $344,911) which includes deducting issued letters of credit in the amount of $11,768 (December 31, 2018 - $15,048) related to these facilities. The Company's investments in Morguard REIT and Morguard Residential REIT, marketable securities, amounts receivable, inventory, capital assets and a fixed-charge security on specific properties have been pledged as collateral on these operating lines of credit. As at June 30, 2019, the Company had borrowed $146,894 (December 31, 2018 - $225,160) on its operating lines of credit.

The bank credit agreements include certain restrictive undertakings by the Company. As at June 30, 2019, the Company is in compliance with all undertakings.

NOTE 16
SHAREHOLDERS' EQUITY

(a) Share Capital Authorized

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

Issued and Fully Paid Common Shares	Number (000s)	Amount
Balance, December 31, 2017	11,842	$106,952
Common shares repurchased through the Company's NCIB	(515)	(4,655)
Common shares cancelled	(34)	—
Dividend reinvestment plan	1	139
Balance, December 31, 2018	11,294	102,436
Common shares repurchased through the Company's NCIB	**(11)**	**(100)**
Dividend reinvestment plan	**—**	**46**
Balance, June 30, 2019	**11,283**	**$102,382**

The Company had the approval of the TSX under its normal course issuer bid ("NCIB") to purchase up to 592,415 common shares. The program expired on September 21, 2018. On September 19, 2018, the Company obtained the approval of the TSX under its NCIB to purchase up to 569,854 common shares, being approximately 5% of the issued and outstanding common shares, and the program expires on September 21, 2019. The daily repurchase restriction for the common shares is 1,000. During the six months ended June 30, 2019, 11,071 common shares were purchased for cash consideration of $2,093 at a weighted average price of $189.05 per common share.

Total dividends declared during the three and six months ended June 30, 2019 amounted to $1,693, or $0.15 per common share (2018 - $1,716, or $0.15 per common share) and $3,386 (2018 - $3,438 or $0.30 per common share), respectively. On August 7, 2019, the Company declared a common share dividend of $0.15 per common share to be paid in the third quarter of 2019.

(b) Contributed Surplus

During the three months ended June 30, 2019, Temple issued 50,044,658 common shares through two rights offering in aggregate amounting to net proceeds of $80,902, of which, the Company acquired 39,807,004 common shares of Temple for cash consideration of $64,972. The non-controlling interest share relating to Temple's rights offerings, net of transaction costs, amounted to $15,930. The difference between the cash consideration and the carrying value of the non-controlling interest share amounted to $2,498 and the amount has been recorded within retained earnings.

During the three months ended June 30, 2019, the Company acquired 338,048 Units of Morguard REIT (2018 - nil Units) for cash consideration of $4,008 (2018 - $nil) and for the six months ended June 30, 2019, the Company acquired 338,048 Units of Morguard REIT (2018 - 1,119,630 Units) for cash consideration of $4,008 (2018 - $15,774). The difference between the cash consideration and the carrying value of the non-controlling interest acquired for the three months ended June 30, 2019, amounted to $2,053 (2018 - $nil) and for the six months ended June 30, 2019, amounted to $2,053 (2018 - $12,433) and the amount has been recorded within retained earnings.

During the three months ended June 30, 2019, the Company acquired partial interests in three properties controlled by the Company located in Mississauga, Ontario, for a purchase price of $8,014, including closing costs and the assumption of partial interest of the mortgages secured by the properties (Note 5). The difference between the cash consideration and the carrying value of the non-controlling interest acquired amounted to $22 and the amount has been recorded within retained earnings.

(c) Stock Appreciation Rights Plan

The SARs granted vest equally over 10 years subject to restrictions.

As at June 30, 2019

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

During the three and six months ended June 30, 2019, the Company recorded a fair value reduction to compensation expense of $1,344 (2018 - $110) and a fair value adjustment to increase compensation expense of $2,700 (2018 - reduction to compensation expense of $860), respectively. The expense is included in property management and corporate expenses in the consolidated statements of income, and the liability is classified as accounts payable and accrued liabilities (Note 14).

The fair value for the SARs was calculated using the Black-Scholes option pricing model. In determining the fair value of the SARs, management is required to make assumptions that could have a material impact on the valuation. The following are the assumptions that were used in determining the fair value as at June 30, 2019: a dividend yield of 0.32% (2018 - 0.36%), expected volatility of approximately 21.33% (2018 - 20.61%) and the 10-year Bank of Canada Bond Yield of 1.50% (2018 - 2.06%).

(d) Accumulated Other Comprehensive Income

As at June 30, 2019, and December 31, 2018, accumulated other comprehensive income consists of the following amounts:

As at	June 30, 2019	December 31, 2018
Actuarial gain on defined benefit pension plans	**$45,745**	$42,057
Unrealized foreign currency translation gain	**175,144**	231,297
	$220,889	$273,354

NOTE 17
REVENUE

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Rental income	**$120,938**	$116,586	**$241,566**	$231,075
Realty taxes and insurance	**33,485**	29,891	**68,252**	60,391
Common area maintenance recoveries	**25,023**	26,522	**52,531**	52,440
Property management and ancillary income	**36,647**	34,062	**73,584**	66,994
	$216,093	$207,061	**$435,933**	$410,900

The components of revenue from hotel properties are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Room revenue	**$49,592**	$46,948	**$89,130**	$86,244
Other hotel revenue	**15,607**	15,049	**29,696**	29,605
	$65,199	$61,997	**$118,826**	$115,849

The components of management and advisory fees are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Property and asset management fees	**$10,052**	$11,717	**$19,472**	$22,466
Other fees	**2,378**	2,684	**4,609**	6,372
	$12,430	$14,401	**$24,081**	$28,838

NOTE 18
INTEREST EXPENSE

The components of interest expense are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Interest on mortgages	**$41,070**	$39,027	**$82,503**	$77,979
Interest on Unsecured Debentures (Note 10)	**8,843**	6,594	**16,863**	12,074
Interest on convertible debentures, net of accretion (Note 11)	**2,486**	3,462	**7,185**	7,986
Interest on bank indebtedness	**1,051**	1,874	**2,006**	3,259
Interest on construction loans	**—**	363	**—**	756
Interest on loans payable and other	**619**	1,141	**1,503**	1,388
Interest on lease liabilities	**2,421**	97	**4,843**	192
Amortization of mark-to-market adjustments on mortgages, net	**(1,376)**	(2,018)	**(2,852)**	(4,168)
Amortization of deferred financing costs	**1,816**	1,724	**3,634**	3,404
Loss on extinguishment of mortgages payable	**70**	—	**561**	—
	57,000	52,264	**116,246**	102,870
Less: Interest capitalized to properties under development	**(116)**	(564)	**(315)**	(1,119)
	$56,884	$51,700	**$115,931**	$101,751

NOTE 19
FAIR VALUE GAIN (LOSS), NET

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Fair value gain on real estate properties, net	**$15,782**	$71,986	**$64,269**	$137,275
Financial assets (liabilities):				
Fair value gain (loss) on conversion option of MRG convertible debentures	**126**	(445)	**(1,226)**	126
Fair value loss on MRG Units (Note 12)	**(6,287)**	(37,771)	**(40,088)**	(8,902)
Fair value gain (loss) on other real estate fund investments (Note 7(b))	**(705)**	88	**4,330**	1,254
Fair value gain on investment in marketable securities	**398**	671	**2,985**	783
Total fair value gain (loss), net	**$9,314**	$34,529	**$30,270**	$130,536

NOTE 20
OTHER INCOME (EXPENSE)

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Foreign exchange gain (loss)	**($1,109)**	$729	**($2,789)**	$3,096
Gain on sale of hotel property (Note 6)	**—**	—	**508**	—
Gain on finance lease	**—**	2,692	**—**	2,692
Other income (expense)	**(37)**	61	**1,320**	(107)
	($1,146)	$3,482	**($961)**	$5,681

NOTE 21
RELATED PARTY TRANSACTIONS

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

(a) Paros Enterprises Limited ("Paros")

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

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

(b) TWC Enterprises Limited ("TWC")

The Company provides TWC with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. Rai Sahi is Chairman and Chief Executive Officer and the majority shareholder of TWC through his personal holding companies, which include Paros. Pursuant to contractual agreements between the Company and TWC, for the three and six months ended June 30, 2019, the Company received a management fee of $327 (2018 - $203) and $653 (2018 - $408), respectively, and for the three and six months ended June 30, 2019, paid rent and operating expenses of $169 (2018 - $189) and $345 (2018 - $339), respectively.

The Company has a revolving demand loan agreement with TWC that provides for either party to borrow up to $50,000 at either the prime rate or the bankers' acceptance rate plus applicable stamping fees. The total loan payable as at June 30, 2019 was $38,170 (December 31, 2018 - $47,809). During the three and six months ended June 30, 2019, the Company paid net interest of $397 (2018 - earned net interest of $63) and $800 (2018 - earned net interest of $138), respectively.

(c) Share/Unit Purchase and Other Loans

As at June 30, 2019, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,450 (December 31, 2018 - $5,552) are outstanding. The loans are collateralized by their common shares of the Company, Units of Morguard REIT and Units of Morguard Residential REIT and are interest-bearing computed at the Canadian prime interest rate and are due on January 10, 2024. Other loans are secured against the underlying asset. The loans are classified as amounts receivable in the consolidated balance sheets. As at June 30, 2019, the fair market value of the common shares/Units held as collateral is $94,905.

NOTE 22
INCOME TAXES

(a) Tax Provision

For the three and six months ended June 30, 2019, the Company recorded an income tax provision of $16,004 (2018 - $30,818) and $24,888 (2018 - $39,993), respectively. The effective tax rate of the current and the prior period was impacted by the tax rate differential. The effective tax rate of the prior period was also impacted by the non-recognition of the benefit of certain deductible temporary difference and the change of estimate of deferred tax liabilities.

(b) Unrecognized Deductible Temporary Differences

As at June 30, 2019, the Company's U.S. subsidiaries have total net operating losses of US$76,602 (December 31, 2018 - US$84,395) of which no deferred tax assets were recognized in respect of US$76,602 (December 31, 2018 - US$76,456) net operating losses as it is not probable that taxable income will be available against which the deductible temporary difference can be utilized. The net operating losses expire in varying years commencing 2030. As at June 30, 2019, the Company's U.S. subsidiaries have total net operating loss of US$nil (December 31, 2018 - US$7,939) of which deferred tax assets were recognized. As at June 30, 2019, the Company's U.S. subsidiaries have total of US$15,691 (December 31, 2018 - US$13,124) of unutilized interest expense deductions, of which deferred tax assets were recognized.

As at June 30, 2019, the Company's Canadian subsidiaries have total net operating losses of $199,785 (December 31, 2018 - $191,263) of which no deferred tax assets were recognized as it is not probable that taxable income will be available against which they can be utilized. These losses expire in various years commencing 2023.

As at June 30, 2019, the Company has other Canadian temporary differences of $22,879 (December 31, 2018 - $26,360) for which no deferred tax asset was recognized. These other temporary differences have no expiration date.

NOTE 23
NET INCOME PER COMMON SHARE

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Net income attributable to common shareholders	**$69,722**	$75,604	**$103,208**	$192,212
Weighted average number of common shares outstanding (000s) - basic and diluted	**11,285**	11,444	**11,287**	11,493
Net income per common share - basic and diluted	**$6.17**	$6.62	**$9.14**	$16.72

NOTE 24
CONSOLIDATED STATEMENTS OF CASH FLOWS
(a) Items Not Affecting Cash

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Fair value gain on real estate properties, net	**($25,254)**	($79,786)	**($45,440)**	($121,552)
Fair value loss (gain) on conversion option of MRG convertible debentures (Note 19)	**(126)**	445	**1,226**	(126)
Fair value loss (gain) on MRG Units (Note 12)	**1,692**	33,311	**30,899**	(17)
Fair value loss (gain) on other real estate investment funds (Note 19)	**705**	(88)	**(4,330)**	(1,254)
Fair value gain on investment in marketable securities (Note 19)	**(398)**	(671)	**(2,985)**	(783)
Equity loss (income) from investments	**4,658**	394	**3,212**	(195)
Amortization of hotel properties	**6,788**	6,106	**13,560**	12,618
Amortization of capital assets and other	**2,062**	1,578	**4,079**	3,202
Amortization of deferred financing costs (Note 18)	**1,816**	1,724	**3,634**	3,404
Amortization of mark-to-market adjustments on mortgages, net (Note 18)	**(1,376)**	(2,018)	**(2,852)**	(4,168)
Loss on extinguishment of mortgages payable (Note 18)	**70**	—	**561**	—
Amortization of tenant incentive	**444**	568	**933**	771
Stepped rent - adjustment for straight-line method	**(220)**	(1,305)	**(123)**	(1,509)
Deferred income taxes	**12,399**	22,826	**20,145**	30,319
Accretion of convertible debentures	**242**	454	**2,053**	1,515
Gain on sale of hotel property (Note 20)	**—**	—	**(508)**	—
Gain on finance lease (Note 20)	**—**	(2,692)	**—**	(2,692)
Provision for impairment	**—**	6,661	**—**	6,661
	$3,502	($12,493)	**$24,064**	($73,806)

(b) Net Change in Operating Assets and Liabilities

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Amounts receivable	**($1,153)**	($1,190)	**($5,553)**	$2,573
Prepaid expenses and other	**(8,088)**	601	**(23,012)**	(8,171)
Accounts payable and accrued liabilities	**10,215**	(20,216)	**7,097**	(12,575)
Net change in operating assets and liabilities	**$974**	($20,805)	**($21,468)**	($18,173)

(c) Supplemental Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Interest paid	**$63,267**	$48,014	**$115,410**	$90,498
Interest received	**1,334**	917	**2,672**	1,834
Income taxes paid	**5,059**	5,622	**14,391**	12,583

During the three and six months ended June 30, 2019, the Company issued non-cash dividends under the distribution reinvestment plan of $21 (2018 - $42) and $46 (2018 - $79), respectively.

(d) Reconciliation of Liabilities Arising from Financing Activities

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

	Mortgages payable	Unsecured debentures	Convertible debentures	Lease liabilities	Loans payable	Bank indebtedness	Total
Balance, beginning of period	$4,362,701	$597,697	$227,999	$9,754	$60,309	$225,160	$5,483,620
Adoption of IFRS 16	—	—	—	161,614	—	—	161,614
Repayments	(54,713)	—	—	(1,018)	(66,732)	(284,914)	(407,377)
New financing, net	10,947	223,575	—	277	48,000	206,648	489,447
Lump-sum repayments	(37,084)	—	(39,636)	—	—	—	(76,720)
Non-cash changes	(29,825)	567	4,096	(684)	—	—	(25,846)
Foreign exchange	(53,371)	—	—	(437)	(3,407)	—	(57,215)
Balance, June 30, 2019	**$4,198,655**	**$821,839**	**$192,459**	**$169,506**	**$38,170**	**$146,894**	**$5,567,523**

NOTE 25

CONTINGENCIES

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

The Company is a lessee under a ground lease that expires on June 30, 2060. In accordance with the terms of the lease, the annual rent was scheduled to be reset to 6% of the fair market value of the land effective July 1, 2010. Since the lessor and the Company were not able to reach an agreement on the fair market value of the land on the last schedule's reset date of July 1, 2010, the matter was appointed to an arbitration tribunal (the "Arbitrators"). On June 21, 2013, a majority of the Arbitrators awarded their decision and concluded on a land value that resulted in the annual land rent increasing from $2,779 to $10,962 (the "Majority Decision"). In accordance with the Majority Decision, the Company has recorded the land rent based on the increased annual rent of $10,962.

On April 27, 2018, the Company reached an agreement on the fair market value of the land for the period from July 1, 2010 through June 30, 2030 that resulted in the annual land rent increasing from $2,779 to $8,760. The Company settled and paid an amount of $15,759 for arrears of rent and interest from July 1, 2010 to April 30, 2018. In accordance with the Majority Decision, for the period from July 1, 2010 to April 30, 2018, the Company recorded annual land rent of $10,962 and reversed $17,250 (pre-tax) of land rent previously expensed during the second quarter of 2018.

NOTE 26

MANAGEMENT OF CAPITAL

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

The total managed capital for the Company as at June 30, 2019, and December 31, 2018, is summarized below:

As at	June 30, 2019	December 31, 2018
Mortgages payable, principal balance	**$4,205,687**	$4,369,811
Unsecured Debentures, principal balance	**825,000**	600,000
Convertible debentures, principal balance	**195,500**	235,136
Loans payable	**38,170**	60,309
Bank indebtedness	**146,894**	225,160
Lease liabilities	**169,506**	9,754
Shareholders' equity	**3,476,253**	3,431,366
	$9,057,010	$8,931,536

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

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

NOTE 27

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Assets and Financial Liabilities

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

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using June 30, 2019, market rates for debts of similar terms (Level 2). Based on these assumptions, the fair value as at June 30, 2019, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,328,655 (December 31, 2018 - $4,428,532), compared with the carrying value of $4,205,687 (December 31, 2018 - $4,369,811). The fair value of the mortgages payable varies from the carrying value due to fluctuations in interest rates since their issue.

The fair value of the Unsecured Debentures liability is based on its closing bid price (Level 1). As at June 30, 2019, the fair value of the Unsecured Debentures has been estimated at $846,509 (December 31, 2018 - $603,624) compared with the carrying value of $825,000 (December 31, 2018 - $600,000).

The fair value of the convertible debentures liability is based on their market trading prices (Level 1). As at June 30, 2019, the fair value of the convertible debentures before deferred financing costs has been estimated at $198,781 (December 31, 2018 - $229,797), compared with the carrying value of $195,500 (December 31, 2018 - $235,136).

The fair value of the finance lease receivable is determined by discounting the cash flows of the finance lease receivable using June 30, 2019, market rates for debt on similar terms (Level 3). Based on these assumptions, as at June 30, 2019, the fair value of the finance lease receivable has been estimated at $56,257 (December 31, 2018 - $55,941).

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

	June 30, 2019			December 31, 2018		
As at	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets:						
Real estate properties	**$—**	**$—**	**$9,718,668**	$—	$—	$9,645,596
Investments in real estate funds	**—**	**—**	**103,985**	—	—	103,984
Investment in marketable securities	**41,591**	**—**	**—**	38,606	—	—
Financial liabilities:						
Morguard Residential REIT Units	**—**	**448,656**	**—**	—	417,481	—
Conversion option on MRG convertible debentures	**—**	**3,695**	**—**	—	2,469	—

NOTE 28

SEGMENTED INFORMATION

(a) Operating Segments

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

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

For the three months ended June 30, 2019	**Multi-suite Residential**	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
Revenue from real estate/hotel properties	**$90,981**	**$62,468**	**$59,145**	**$3,499**	**$65,199**	**$281,292**
Property/hotel operating expenses	**(30,625)**	**(26,034)**	**(25,288)**	**(1,043)**	**(48,157)**	**(131,147)**
Net operating income	**$60,356**	**$36,434**	**$33,857**	**$2,456**	**$17,042**	**$150,145**

For the three months ended June 30, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$86,570	$60,725	$55,840	$3,926	$61,997	$269,058
Property/hotel operating expenses	(28,879)	(27,018)	(24,383)	(1,190)	(44,603)	(126,073)
	$57,691	$33,707	$31,457	$2,736	$17,394	$142,985
Land rent arbitration settlement						17,250
Net operating income						$160,235

For the six months ended June 30, 2019	**Multi-suite Residential**	**Retail**	**Office**	**Industrial**	**Hotel**	**Total**
Revenue from real estate/hotel properties	**$182,614**	**$127,101**	**$119,442**	**$6,776**	**$118,826**	**$554,759**
Property/hotel operating expenses	**(95,340)**	**(57,999)**	**(51,858)**	**(2,172)**	**(92,671)**	**(300,040)**
Net operating income	**$87,274**	**$69,102**	**$67,584**	**$4,604**	**$26,155**	**$254,719**

For the six months ended June 30, 2018	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
Revenue from real estate/hotel properties	$170,433	$121,395	$111,784	$7,288	$115,849	$526,749
Property/hotel operating expenses	(85,020)	(59,902)	(49,438)	(2,286)	(87,373)	(284,019)
	$85,413	$61,493	$62,346	$5,002	$28,476	$242,730
Land rent arbitration settlement						17,250
Net operating income						$259,980

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at June 30, 2019						
Real estate/hotel properties	**$4,543,223**	**$2,740,873**	**$2,267,737**	**$150,890**	**$659,894**	**$10,362,617**
Mortgages payable	**$1,906,510**	**$897,256**	**$962,102**	**$31,401**	**$401,386**	**$4,198,655**
For the six months ended June 30, 2019						
Additions to real estate/hotel properties	**$16,653**	**$16,905**	**$12,789**	**$401**	**$11,722**	**$58,470**
Fair value gain (loss) on real estate properties	**$89,126**	**($26,271)**	**$981**	**$433**	**$—**	**$64,269**

	Multi-suite Residential	Retail	Office	Industrial	Hotel	Total
As at December 31, 2018						
Real estate/hotel properties	$4,586,202	$2,642,745	$2,250,514	$166,135	$666,078	$10,311,674
Mortgages payable	$2,010,392	$913,478	$983,750	$31,826	$423,255	$4,362,701
For the six months ended June 30, 2018						
Additions to real estate/hotel properties	$120,306	$44,356	$65,728	$44,609	$27,917	$302,916
Fair value gain on real estate properties	$125,011	$4,130	$6,244	$1,890	$—	$137,275

(b) Regional Segments

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

As at	June 30, 2019	December 31, 2018
Real estate and hotel properties		
Canada	**$7,590,337**	$7,376,407
United States	**2,772,280**	2,935,267
	$10,362,617	$10,311,674

	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenue from real estate and hotel properties				
Canada	**$218,227**	$209,586	**$427,347**	$410,751
United States	**63,065**	59,472	**127,412**	115,998
	$281,292	$269,058	**$554,759**	$526,749

NOTE 29
SUBSEQUENT EVENTS

On July 24, 2019, the Company acquired an office property consisting of 157,350 square feet located in Ottawa, Ontario, for a purchase price of $52,000, excluding closing costs.

On August 1, 2019, the Company sold its 50% interest in an industrial property, consisting of 242,521 square feet located in Salaberry-de-Valleyfield, Québec, for gross proceeds of $16,125.

Subsequent to June 30, 2019, the Company increased its investment in marketable securities in the amount of $65,570.