Real Estate Potential. Realized.

MORGUARD CORPORATION

DECEMBER 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended December 31, 2017. 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 year ended December 31, 2017, 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 audited consolidated financial statements and accompanying notes for the years ended December 31, 2017 and 2016. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 22, 2018. 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. 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. 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 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 property (including income taxes on the sale of real estate 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) 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, the First Supplemental Indenture dated as of December 10, 2013 and Third Supplement Indenture dated as of September 15, 2017, that are calculated based on the Company's financial results, prepared in accordance with IFRS, adjusted to account for the Company's public entity investments in Morguard Real Estate Investment Trust ("Morguard REIT"), Morguard Residential REIT and Temple Hotels Inc. ("Temple") using the equity method of accounting ("Non-Consolidated Basis" or "Morguard Non-Consolidated Basis").

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.

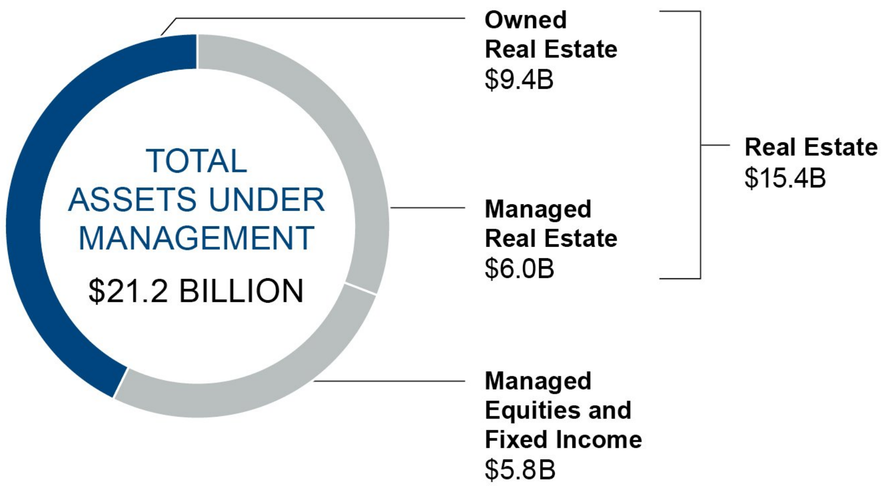
NON-CONSOLIDATED ADJUSTED SHAREHOLDERS' EQUITY

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 December 31, 2017. 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 December 31, 2017, 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 $11.8 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;
- Increase the portfolio of third-party assets under management;
- 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.

SIGNIFICANT EVENT

BUSINESS COMBINATION

On December 14, 2016, the Company acquired 54,578,187 common shares of Temple, increasing its ownership in Temple from 38.9% to 55.9%. This acquisition of control has been reflected as a business combination occurring on December 31, 2016.

As a result of the acquisition of control, the Company converted the method of accounting for its investment in Temple from the equity method to the consolidation method effective December 31, 2016. The impact of this change was significant on the Company's December 31, 2016 balance sheet because of the requirement to fully consolidate Temple's assets and liabilities. Commencing January 1, 2017, the impact of consolidating Temple was significant on the Company's statements of income since Temple's revenue and expenses are fully consolidated in the Company's operating results. There is no impact on FFO as a result of the change from the equity to consolidation method.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at December 31	**2017**	2016	2015
Real estate properties	**$8,655,651**	$7,919,671	$7,816,302
Hotel properties	**669,026**	705,663	115,560
Equity-accounted and other fund investments	**280,853**	380,808	329,320
Total assets	**10,111,986**	9,588,078	8,602,132
Indebtedness[(1)]	**$4,935,454**	$4,778,750	$4,183,810
Indebtedness to total assets (%)	**48.8**	49.8	48.6
Total equity	**$3,934,369**	$3,671,131	$3,481,997
Shareholders' equity per common share	**260.32**	239.98	224.94
Exchange rates - U.S. dollar to Canadian dollar	**$1.25**	$1.34	$1.38

(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) finance lease obligation, (v) bank indebtedness, (vi) loans payable, (vii) construction financing and (viii) letters of credit.

Total assets as at December 31, 2017, were $10,111,986, compared to $9,588,078 as at December 31, 2016. Total assets increased by $523,908 primarily due to the following:

- An increase in real estate properties of $735,980 mainly due to acquisition of real estate properties of $656,962, capital and development expenditures of $109,875, tenant incentives and leasing commissions of $22,159 and a fair value gain of $190,078, partially offset by the disposition of real estate properties of $88,685 and a change in foreign exchange rate amounting to $154,257;
- An increase in other assets and prepaid expense of $50,449;
- An increase in amounts receivable of $18,433;
- A decrease in cash of $107,072;
- A decrease in mortgages and loans receivable of $37,290;
- A decrease in equity-accounted and other fund investments of $99,955; and
- A decrease in hotel properties of $36,637.

FINANCIAL AND OPERATIONAL HIGHLIGHTS (CONTINUED)

For the years ended December 31	2017	2016	2015
Revenue from real estate properties	**$790,535**	$775,746	$762,033
Revenue from hotel properties	**237,116**	66,567	46,562
Management and advisory fees	**71,786**	67,895	59,536
Total revenue	**1,113,774**	921,976	883,559
Net operating income	**513,867**	453,398	435,899
Fair value gain (loss), net	**139,898**	(51,794)	(87,301)
Net income attributable to common shareholders	**310,120**	172,745	80,542
Per common share - basic and diluted	**26.10**	14.46	6.58
Funds from operations	**225,072**	213,282	183,139
Per common share - basic and diluted	**18.94**	17.86	14.96
Normalized FFO	**222,442**	198,299	194,476
Per common share - basic and diluted	**18.72**	16.60	15.89
Distributions received from Morguard REIT	**31,178**	30,151	28,371
Distributions received from Morguard Residential REIT	**15,375**	13,752	13,601
Dividends declared/paid	**(7,127)**	(7,163)	(7,305)
Average exchange rates - U.S. dollar to Canadian dollar	**1.30**	1.32	1.28

Total revenues increased during the year ended December 31, 2017 by $191,798 to $1,113,774, compared to $921,976 in 2016. The increase was primarily due to the following:

- An increase in revenue from real estate properties in the amount of $14,789;
- An increase in hotel revenue in the amount of $170,549 of which $165,612 is due to the consolidation of Temple commencing January 1, 2017; and
- An increase in management and advisory fees of $3,891.

PROPERTY PROFILE

As at December 31, 2017, the Company and its subsidiaries, including Morguard REIT, Morguard Residential REIT and Temple, 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 December 31, 2017 was as follows:

Asset Type	Number of Properties	GLA Square Feet (000s)(1)	Apartment Suites/Hotels Rooms(2)	Real Estate Properties
Multi-suite residential	58	—	18,129	$4,063,555
Retail	41	8,668	—	2,536,063
Office	45	6,483	—	1,999,962
Industrial	26	1,196	—	113,857
Hotel	38	—	5,557	657,057
Properties and land held for and under development	—	—	—	119,632
Total (3)	**208**	**16,347**	**23,686**	**$9,490,126**

(1) Total GLA is shown on a proportionate basis; on a 100% basis, total GLA of the Company's commercial properties is 20.4 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 17,128 suites and 5,387 hotel rooms.
(3) Includes two multi-suite residential, two office properties and two hotel properties classified as equity-accounted investments.

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 34 U.S. properties (25 low-rise and five 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 18,129 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 12 properties located in Florida and Louisiana. The combined retail portfolio represents 8.7 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 6.5 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 1.2 million square feet of GLA.

The Company's hotel portfolio comprises 22 branded and 16 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 services. The hotel portfolio represents 5,557 rooms. The Company also owns a hotel property in Ottawa, Ontario, that is currently under development.

AVERAGE OCCUPANCY LEVELS

COMPARATIVE AVERAGE OCCUPANCY LEVELS

	Suites/GLA Square Feet	Dec. 2017	Sep. 2017	Jun. 2017	Mar. 2016	Dec. 2016
Multi-suite residential	17,139 (1)	94.1%	94.5%	95.8%	95.8%	95.5%
Retail	8,183,000 (2)	91.0%	90.3%	91.4%	92.3%	93.0%
Office	6,483,500	92.9%	92.5%	93.2%	95.0%	94.6%
Industrial	1,196,500	88.8%	88.8%	88.8%	88.5%	94.2%

(1) Excludes two properties located in Los Angeles, California and Chicago, Illinois accounted for under equity investments.
(2) Retail occupancy has been adjusted to exclude development space (485,130 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases.

The retail occupancy levels were adjusted to exclude development space (485,130 square feet of GLA) affected by either disclaimed or acquired Target and Sears leases. As at December 31, 2017, this adjustment increased retail occupancy from 87.1% to 91.0%.

Occupancy excludes an equity-accounted development project, a 34-storey, 691 luxury suite residential tower ("Marquee at Block 37"). Leasing began in March 2016 and the project is currently 84.2% occupied.

PART III

REVIEW OF OPERATIONAL RESULTS

The Company's operational results for the years ended December 31, 2017 and 2016 are summarized below:

For the years ended December 31	2017	2016
Revenue from real estate properties	**$790,535**	$775,746
Revenue from hotel properties	**237,116**	66,567
Property operating expenses		
Property operating costs	**(174,440)**	(169,045)
Utilities	**(52,986)**	(53,475)
Realty taxes	**(110,644)**	(114,788)
Hotel operating expenses	**(175,714)**	(51,607)
Net operating income	**513,867**	453,398
OTHER REVENUE		
Management and advisory fees	**71,786**	67,895
Interest and other income	**8,907**	6,349
Sales of product and land	**5,430**	5,419
	86,123	79,663
EXPENSES		
Interest	**191,965**	152,926
Property management and corporate	**82,862**	86,592
Cost of sales of product and land	**3,524**	3,466
Amortization of hotel properties	**26,640**	4,936
Amortization of capital assets and other	**4,228**	4,148
Provision for impairment	**24,590**	—
	333,809	252,068
OTHER INCOME (EXPENSE)		
Fair value gain (loss), net	**139,898**	(51,794)
Equity income (loss) from investments	**(10,227)**	54,904
Gain on business combination	**—**	3,778
Other income	**3,885**	29,448
	133,556	36,336
Income before income taxes	**399,737**	317,329
Provision for income taxes		
Current	**21,187**	27,718
Deferred	**34,183**	79,687
	55,370	107,405
Net income for the year	**$344,367**	$209,924
Net income attributable to:		
Common shareholders	**$310,120**	$172,745
Non-controlling interest	**34,247**	37,179
	$344,367	$209,924
Net income per common share attributable to:		
Common shareholders - basic and diluted	**$26.10**	$14.46

NET INCOME

Net income for the year ended December 31, 2017, was $344,367, compared to net income of $209,924 in 2016. The increase in net income of $134,443 for the year ended December 31, 2017, was primarily due to the following:

- An increase in net operating income of $60,469, primarily due to the consolidation of Temple and from acquisitions completed during and subsequent to the year ended December 31, 2017;
- An increase in management and advisory fees of $3,891;
- An increase in interest expense of $39,039, primarily due to the consolidation of Temple;
- A decrease in property management and corporate expense of $3,730;
- An increase in amortization of hotel properties of $21,704, primarily due to the consolidation of Temple;
- An increase in impairment provision of $24,590 at four hotel properties located in Western Canada;
- An increase in non-cash net fair value gain of $191,692, primarily due to a higher fair value gain on real estate properties from a decrease in capitalization rates for Canadian multi-suite residential properties and a lower fair value loss on MRG Units;
- A decrease in non-cash equity income of $65,131, primarily due to a fair value gain recognized in 2016 at the Marquee at Block 37;
- A decrease in other income of $25,563 primarily due to settlement proceeds received from Target Corporation during 2016; and
- An decrease in income taxes (current and deferred) of $52,035 resulting from a one time deferred tax recovery due to the U.S. federal tax rate reduction enacted on December 22, 2017.

NET OPERATING INCOME

Net operating income increased by $60,469, or 13.3%, during the year ended December 31, 2017, to $513,867, compared to $453,398 generated in 2016, and is further analyzed by asset type below.

ADJUSTED NOI BY ASSET TYPE

For the years ended December 31	2017	2016
Multi-suite residential	**$184,548**	$169,436
Retail	**137,021**	141,606
Office	**123,176**	120,947
Industrial	**6,292**	7,020
Hotel	**61,402**	14,472
Adjusted NOI	**512,439**	453,481
IFRIC 21 adjustment - multi-suite residential	**1,428**	—
IFRIC 21 adjustment - retail	**—**	(83)
NOI	**$513,867**	$453,398

NOI from the multi-suite residential portfolio for the year ended December 31, 2017, increased by $16,540 or 9.8% to $185,976, compared to $169,436 in 2016. The increase in NOI is due to an increase in the IFRIC 21 adjustment of $1,428 and the change in Adjusted NOI described below.

Adjusted NOI from the multi-suite residential portfolio for the year ended December 31, 2017, increased by $15,112 or 8.9% to $184,548, compared to $169,436 in 2016. The increase in Adjusted NOI is primarily due to the following:

- An increase of $5,768 primarily from rental rate growth, improved occupancy and lower operating expenses at properties located in Canada. The average rental rate increased by 2.3% when compared to the same period in 2016. Lower operating expenses were primarily due to a decrease in hydro rates at Ontario properties as a result of new legislation in Ontario, the *Fair Hydro Act*, *2017,* which came into effect on June 1, 2017;
- An increase of $723 due to the acquisitions of 160 Chapel located in Ottawa, Ontario, on February 1, 2016 and the Downsview Townhomes in May 2017;
- Additional NOI of $3,472 generated from The Heathview in Toronto, Ontario. During 2016, The Heathview was under initial lease-up;
- An increase of US$675 primarily from rental rate growth, partially offset by an increase in operating expenses at properties located in the U.S. The rental rate increased by 3.3% when compared to 2016;

- An increase of US$6,910 due to the acquisition of three properties during the third quarter of 2017;
- A decrease of US$2,247 due to the sale of four properties located in Mobile, Alabama, during the third quarter of 2017; and
- A decrease of $189 due to the change in the U.S. dollar foreign exchange rate.

NOI from the retail portfolio for the year ended December 31, 2017, decreased by $4,502, or 3.2%, to $137,021, compared to $141,523 in 2016. The decrease in NOI is due to a decrease in the IFRIC 21 adjustment of $83 and the change in Adjusted NOI described below.

Adjusted NOI from the retail portfolio for the year ended December 31, 2017, decreased by $4,585, or 3.2%, to $137,021, compared to $141,606 in 2016. The decrease in Adjusted NOI is primarily due to the following:

- A decrease in Canadian retail properties of $3 primarily resulting from:
  - A decrease of $3,608 due to increased vacancy, lower base rent, higher non-recoverable operating expenses and lower recoveries primarily at three properties;
  - An increase of $1,072 in lease cancellation fees primarily due to a cancellation payment at a property located in Saint-Laurent, Québec; and
  - An increase of $2,533 due to realty tax refunds received at a property located in Toronto, Ontario, offset by increased vacancy. The vacancy is temporary as the space has been re-leased and will be occupied at various dates in 2018. The rental rates achieved on the new leases are 48% higher than rents paid by previous tenants;
- A decrease in U.S. retail properties of US$2,981 primarily resulting from:
  - A decrease of US$298 due to the sale of one U.S. retail property during first quarter in 2016;
  - A decrease at two U.S. retail properties of US$2,783 due to loss of tenants at enclosed shopping centres in Louisiana; and
- A decrease of $1,601 due to the change in the U.S. dollar foreign exchange rate.

NOI from the office portfolio for the year ended December 31, 2017, increased by $2,229, or 1.8%, to $123,176, compared to $120,947 in 2016 due primarily to the following:

- An increase of $2,109 due to the acquisition of four properties during the year;
- An increase in lease cancellation fees of $856 primarily due to two cancellation payments in the amount of $1,356 at properties in Saint-Laurent, Québec and in Toronto, Ontario during the year, offset by $500 received from a tenant that surrendered a portion of their space in the first quarter of 2016;
- An increase of $915 at Performance Court, a 21-storey office building in Ottawa, Ontario, due to staggered lease commencement dates for the building’s anchor tenant with approximately 22,000 square feet of space beginning to pay rent on January 1, 2017;
- An increase of $1,018 due to a single tenant property located in Calgary, Alberta, that had been vacant in the previous year has now been fully leased;
- A decrease of $641 due to the sale of a property during the second quarter of 2016; and
- A decrease of $2,028 due to increased vacancy and lower recoveries.

NOI from the industrial portfolio for the year ended December 31, 2017, decreased by $728, or 10.4%, to $6,292, compared to $7,020 in 2016. The decrease is due to increased vacancy at two industrial properties.

NOI from the hotel portfolio for the year ended December 31, 2017, increased by $46,930, to $61,402, compared to $14,472 in 2016. The increase is primarily due to the consolidation of Temple that contributed $42,885 of NOI and the acquisition of three hotels near Toronto’s Pearson International Airport in February 2016 that contributed an additional $486 of NOI. In addition, the remainder of the portfolio generated higher NOI of $3,559 due to stronger average room rates, improved occupancy and reduced costs.

COMPARATIVE NET OPERATING INCOME

For the years ended December 31	2017	2016
Multi-suite residential (in local currency)	**$137,894**	$131,169
Retail (in local currency)	**126,604**	134,308
Office	**117,269**	118,512
Industrial	**6,156**	6,851
Hotel	**14,758**	11,117
Exchange amount to Canadian dollars	**25,972**	29,047
Comparative NOI	**428,653**	431,004
Consolidation of Temple	**42,885**	—
Acquired properties	**18,925**	6,619
Dispositions	**3,720**	7,826
Realty tax expense accounted for under IFRIC 21	**1,428**	(83)
Canadian retail - lease cancellation/settlement	**1,336**	434
Canadian office - lease cancellation fees	**1,608**	500
Canadian residential - The Heathview transferred from development	**10,085**	6,613
Canadian hotel and office - development	**(513)**	(519)
Realty tax refund/reassessment	**5,305**	—
Other	**435**	1,004
NOI	**$513,867**	$453,398

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 year ended December 31, 2017, decreased by $2,351, to $428,653 compared to $431,004 in 2016 due to the following:

- Multi-suite residential increase of $6,725 as a result of an increase in Canadian and U.S. rental rate growth and improved operating efficiencies;
- Retail decrease of $7,704 due to increased vacancy, lower base rent, higher non-recoverable operating expenses and lower recoveries at certain Canadian properties and higher vacancy at two U.S. properties;
- Office decreased by $1,243 mainly due to increased vacancy at certain properties;
- Industrial decreased by $695 due to increased vacancy at two industrial properties;
- Hotel increased by $3,641 due to an increase in average room rates, improved occupancy and reduced costs; and
- The change in the foreign exchange rate decreased Comparative NOI for the U.S. properties by $3,075.

MANAGEMENT AND ADVISORY FEES AND OTHER OPERATIONS

Morguard's management and advisory fee revenue for the year ended December 31, 2017, increased by $3,891, or 5.7%, to $71,786, compared to $67,895 in 2016, primarily due to higher asset management fees earned by Lincluden as a result of an increase in assets under management and higher disposition fees earned, partially offset by lower leasing fees and asset management fees earned compared to 2016.

The Company also generated a net profit from the sale of product and land of $1,906 during the year ended December 31, 2017 (2016 - $1,953).

INTEREST AND OTHER INCOME

Interest and other income for the year ended December 31, 2017, increased by $2,558, or 40.3%, to $8,907, compared to $6,349 in 2016. The increase was primarily due to higher income earned on investments and from loans receivable.

INTEREST EXPENSE

Interest expense consists of the following:

For the years ended December 31	2017	2016
Mortgages payable	**$155,893**	$137,787
Bank indebtedness	**2,614**	3,849
Construction loans	**1,249**	5,033
Unsecured Debentures	**16,124**	6,499
Convertible debentures, net of accretion	**21,417**	7,030
Loans payable and other	**696**	182
Amortization of mark-to-market adjustments on mortgages, net	**(10,640)**	(12,464)
Amortization of deferred financing costs	**6,390**	5,089
Amortization of cash flow hedge	**—**	189
	193,743	153,194
Less: Interest capitalized to properties under development	**(1,778)**	(268)
	$191,965	$152,926

Interest expense for the year ended December 31, 2017, increased by $39,039, or 25.5%, to $191,965, compared to $152,926 in 2016, mainly due to higher interest on mortgages payable and convertible debentures largely attributable to the consolidation of Temple, mortgage financing on acquisitions and higher interest on Unsecured Debentures resulting from the issuance of the Series B and C debentures in November 2016 and September 2017, respectively, partially offset by lower interest on construction loans and bank indebtedness.

PROPERTY MANAGEMENT AND CORPORATE

Property management and corporate expenses for the year ended December 31, 2017, decreased by $3,730, or 4.3%, to $82,862, compared to $86,592 in 2016, primarily due to a decrease in non-cash compensation expense related to the Company's Stock Appreciation Rights ("SARs") plan of $3,595.

AMORTIZATION OF HOTEL PROPERTIES

Amortization of hotel properties for the year ended December 31, 2017, increased by $21,704 to $26,640, compared to $4,936 in 2016, primarily due to the consolidation of Temple.

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 year ended December 31, 2017, the Company recognized a net fair value gain of $189,121, compared to a net fair value gain of $25,960 in 2016.

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

For the years ended December 31	2017	2016
Multi-suite residential	**$226,247**	$67,414
Retail	**(24,118)**	(15,308)
Office	**(13,499)**	(29,508)
Industrial	**1,776**	2,538
Properties under development	**(55)**	(1,350)
Land held for development	**(1,230)**	2,174
	$189,121	$25,960

For the year ended December 31, 2017, the Company recognized a net fair value gain of $226,247 in the residential portfolio. The fair value gain consists of $172,584 at the Canadian properties as a result of a 25 to 75 basis point decrease in capitalization rates at the Company's GTA properties and $53,663 at the U.S. properties, which was predominantly due to an increase in stabilized NOI.

For the year ended December 31, 2017, the Company recognized a net fair value loss of $24,118 in the retail portfolio. The fair value loss comprises a loss of $30,508 at the Canadian properties mainly as the result of the announcement that Sears Canada Inc. will be vacating the Company's four locations offset by an increase at one property located in British Columbia that was valued at its highest and best use based on recent comparable land sales, and a fair value increase of $6,390 at the U.S. properties due to a decrease of 25 to 50 basis points in the capitalization rates.

For the year ended December 31, 2017, the Company recognized a net fair value loss of $13,499 in the office portfolio. The fair value loss is mainly due to the continued economic downturn in the Alberta office market.

FAIR VALUE LOSS ON MORGUARD RESIDENTIAL REIT UNITS

For the year ended December 31, 2017, the Company recorded a fair value loss on the Morguard Residential REIT Units of $49,066, which includes a mark-to-market loss of $31,697 on the Units and the distributions made to external Unitholders of $17,369.

EQUITY INCOME (LOSS) FROM INVESTMENTS

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

For the years ended December 31	2017	2016
Joint ventures	**$2,903**	($1,352)
Associates	**(13,130)**	56,256
	($10,227)	$54,904

Equity income (loss) from investments for the year ended December 31, 2017, decreased by $65,131 to a loss of $10,227, compared to income of $54,904 in 2016. The increase in equity loss during the year ended December 31, 2017, compared to the same period in 2016 is predominantly due to a $85,236 fair value gain recognized during 2016 at the Company's investment in the Marquee at Block 37 compared to a $2,475 fair value gain in the same period in 2017.

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. A recoverability analysis was completed in accordance with the procedures specified by IFRS which included all hotel properties.

For the purpose of the recoverability analysis, IFRS provides that the recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use and that it is not necessary to determine both as asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired.

Lower occupancy, future projected capital requirements and intended change in the use of one asset at the end of the lease term affected the recoverable value of four hotel properties resulting in the recognition of an impairment provision for the year ended December 31, 2017 of $24,590 (2016 - $nil).

OTHER INCOME

Other income for the year ended December 31, 2017, decreased by $25,563, or 86.8%, to $3,885, compared to $29,448 in 2016, primarily due to $22,490 in settlement proceeds from Target Corporation received during 2016 relating to the five leases that were disclaimed by Target Canada Corporation and a decrease in foreign exchange gain of $2,595 as compared to 2016. 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 year ended December 31, 2017, the Company recorded total income tax expense of $55,370, compared to $107,405 in 2016. The decrease of $52,035 comprises a decrease of $6,531 in current tax and a decrease of $45,504 in deferred tax. The decrease in current tax is primarily due to settlement proceeds received from Target Corporation during 2016 and current year tax deductions from the Company's newly developed enterprise resource planning and financial system, partly offset by current tax of $720 resulting from the non-recurring Alabama net state tax liability incurred on the disposition of properties in 2017. The non-recurring current tax is with respect to the taxable gain on disposition of the four Alabama properties, which was partly sheltered by available state tax losses in Alabama and fully sheltered by tax losses available for federal purposes.

The decrease of deferred tax is predominantly due to the decrease of $78,219 resulting from a U.S. federal tax rate reduction from 35% to 21% enacted on December 22, 2017 by the *Tax Cuts and Jobs Act of 2017* (the "Act"), partially offset by increase of deferred income tax due to the fair value increases related to the U.S. properties compared to the same period in 2016.

In addition to the U.S. income tax rate reduction mentioned above, the other changes enacted by the Act having the most significant impact on the Company's U.S. subsidiaries include, but are not limited to, the accelerated depreciation of residential real properties and the limitation of interest expense deduction. The Company has calculated its best estimate of the impact of the Act in its year-end income tax provision in accordance with its understanding of the Act and guidance available as of the date of the consolidated financial statements. The provisional amount attributable to the accelerated depreciation for certain assets placed into services after September 27, 2017 resulted in a reduction of deferred tax asset of $439. The income tax effects of limitation of interest expense deduction commencing in 2018 requires further analysis due to the volume of data required to complete the calculations. The Company expects to complete the analysis in the second half of 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 statements of comprehensive income (loss). During the year ended December 31, 2017, an actuarial loss of $2,174 was recorded in the consolidated statements of comprehensive income (loss), compared to an actuarial gain of $25,693 for the year ended December 31, 2016.

FUNDS FROM OPERATIONS

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

For the years ended December 31	2017	2016
Multi-suite residential	**$184,548**	$169,436
Retail	**137,021**	141,606
Office	**123,176**	120,947
Industrial	**6,292**	7,020
Hotel	**61,402**	14,472
Adjusted NOI	**512,439**	453,481
Other Revenue		
Management and advisory fees	**71,786**	67,895
Interest and other income	**8,907**	6,349
Sale of product and land, net of costs	**1,906**	1,953
Equity-accounted FFO - other investments(1)	**1,343**	(2,088)
Equity-accounted FFO - Temple	**—**	4,517
	83,942	78,626
Expenses and Other		
Interest	**(191,965)**	(152,926)
Property management and corporate	**(82,862)**	(86,592)
Internal leasing costs	**4,671**	5,905
Amortization of capital assets	**(2,404)**	(1,936)
Current income taxes	**(20,467)**	(27,718)
Non-controlling interest's share of FFO	**(57,605)**	(60,388)
Non-controlling interest - Morguard Residential REIT	**(21,769)**	(19,323)
Target settlement	**—**	22,490
Other	**1,092**	1,663
FFO	**$225,072**	$213,282
FFO per common share amounts – basic and diluted	**$18.94**	$17.86
Weighted average number of common shares outstanding (in thousands):		
Basic and diluted	**11,883**	11,943

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

For the year ended December 31, 2017, the Company recorded FFO of $225,072 ($18.94 per common share), compared to $213,282 ($17.86 per common share) in 2016. The increase in FFO of $11,790 is mainly due to the following:

- Higher Adjusted NOI of $58,958, primarily due to the consolidation of Temple and from the acquisition of properties;
- An increase in management and advisory fees of $3,891;
- An increase in interest and other income of $2,558;
- A decrease in equity-accounted FFO of $1,086;
- An increase in interest expense of $39,039, primarily due to the consolidation of Temple and from mortgage financing on acquisitions as well as higher interest on Unsecured Debentures;
- Lower property management and corporate expense of $3,730;
- A decrease in internal leasing cost of $1,234;
- A decrease in current taxes of $7,251;
- Lower share of non-controlling interest's share of FFO of $2,783;
- An increase in non-controlling interest share of Morguard Residential REIT of $2,446; and
- A decrease as a result of Target settlement proceeds of $22,490 recognized in 2016.

The change in foreign exchange rates had a negative impact on FFO of $1,236 ($0.10 per common share).

Normalized FFO

For the years ended December 31	2017	2016
FFO (from above)	**$225,072**	$213,282
Add/(deduct):		
Target settlement, net of non-controlling interest	**—**	(16,999)
Unrealized loss (gain) from investment in convertible debentures	**—**	(601)
Insurance proceeds - property damage (Temple)	**(1,166)**	—
Lease cancellation fee	**(1,593)**	(500)
	222,313	195,182
Tax effect	**129**	3,117
Normalized FFO	**$222,442**	$198,299
Per common share amounts – basic and diluted	**$18.72**	$16.60

Normalized FFO for the year ended December 31, 2017, was $222,442, or $18.72 per common share, versus $198,299, or $16.60 per common share, for the same period in 2016, which represents an increase of $24,143, or 12.2%.

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

For the years ended December 31	2017	2016
Net income attributable to common shareholders	**$310,120**	$172,745
Add/(deduct):		
Fair value gain on real estate properties, net[1]	**(178,328)**	(96,695)
Non-controlling interests' share of fair value gain on real estate properties, net	**(3,443)**	(23,209)
Fair value loss on Morguard Residential REIT Units	**31,697**	63,296
Distribution to Morguard Residential REIT's external Unitholders	**17,369**	14,459
Non-controlling interest - Morguard Residential REIT	**(21,769)**	(19,323)
Fair value loss on conversion option of MRG convertible debentures	**157**	600
Amortization of intangible asset	**1,720**	2,108
Amortization of hotel and owner-occupied properties[2]	**27,521**	5,040
Non-controlling interests' share of amortization of hotel properties	**(8,898)**	—
Foreign exchange gain	**(2,793)**	(5,388)
Deferred income taxes	**34,183**	79,687
Current tax on disposition of properties	**720**	—
Non-controlling interests' share of deferred income taxes	**(173)**	—
Internal leasing costs	**4,671**	5,905
Realty taxes accounted for under IFRIC 21[3]	**(1,428)**	83
Transaction costs incurred on business combination	**—**	1,180
Equity loss from Temple	**—**	13,743
Equity-accounted FFO - Temple	**—**	4,517
Gain on sale of real estate property	**—**	(1,688)
Provision for impairment	**24,590**	—
Non-controlling interests' share of provision for impairment	**(10,844)**	—
Gain on business combination	**—**	(3,778)
FFO	**$225,072**	$213,282
FFO per common share – basic and diluted	**$18.94**	$17.86
Weighted average number of common shares outstanding (in thousands):		
Basic and diluted	**11,883**	11,943

(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 December 31	2017	2016
Real estate properties		
Multi-suite residential	**$3,947,660**	$3,365,080
Retail	**2,536,063**	2,526,276
Office	**1,965,704**	1,818,449
Industrial	**113,857**	110,576
	8,563,284	7,820,381
Properties under development	**29,729**	35,155
Land held for development	**62,638**	64,135
Real estate properties	**$8,655,651**	$7,919,671

Real estate properties increased by $735,980 at December 31, 2017, to $8,655,651, compared to $7,919,671 at December 31, 2016. The increase is primarily the result of the following:

- Acquisitions of real estate properties totalling $656,962 from the following;

Property	Date of Acquisition	Asset Type	Location	Purchase Price
Coast at Lakeshore East(1)	July 10, 2017	Residential	Chicago, IL	$291,686
The Fenestra	August 17, 2017	Residential	Rockville, MD	166,506
123 Commerce Valley East	August 3, 2017	Office	Markham, ON	67,947
Northgate at Falls Church(2)	July 6, 2017	Residential	Falls Church, VA	65,404
Camelot Business Centre	September 21, 2017	Office	Ottawa, ON	21,987
Argus Corporate Centre	August 17, 2017	Office	Oakville, ON	18,958
Downsview Townhomes	May 15, 2017	Residential	Toronto, ON	16,749
South Sheridan	April 6, 2017	Office	Oakville, ON	7,148
Rainbow Square	September 26, 2017	Retail (Land)	Dunnellon, FL	319
Emerald Lake Townhomes	March 24, 2017	Residential	Lakeworth, FL	258
				$656,962

(1) On October 2, 2017, the Company sold a 49% interest in the property for $63,410 to an institutional partner.
(2) The property is subject to a long-term land lease, with a fixed price land purchase option available in September 2029. Income producing properties include $9,256 (US$7,150) relating to the land lease in connection with the finance lease obligation recognized.

- Capitalization of property enhancements, including capital expenditures and tenant improvements totalling $72,459;
- Development expenditures of $59,575;
- Fair value gains on real estate properties of $190,078;
- A decrease of $154,257 due to the change in the U.S. dollar foreign exchange rate; and
- The disposition of four U.S. properties located in Mobile, Alabama, comprising 1,329 suites, for net proceeds of $88,685 (US$69,318).

Coast at Lakeshore East is a recently built, 46-storey Class A property prominently located in the Lakeshore East master planned community, part of Chicago's famed Loop district. The 515-suite rental building offers unencumbered views of the Chicago River, Navy Pier and Lake Michigan and best-in-class fundamentals including nine-foot ceilings, above-average suite sizes and floor-to-ceiling windows. The property features 18,000 square feet of ground floor retail and a focus on green living: the LEED® Silver Certified building offers a smoke-free environment, world-class fitness centre, heated outdoor pool and access to the Chicago Pedway.

The Fenestra is a property comprising 492 suites located in Rockville, Maryland. Development of the property was completed in 2008. The Fenestra at Rockville Town Square (“The Fenestra”) is prominently located on Rockville Town Square, the social and cultural hub of Rockville. Residents of The Fenestra can walk to numerous restaurants, nightclubs and boutique stores, or easily commute to Washington via the nearby Washington Metro. The Fenestra comprises three six-storey buildings, featuring condo-quality amenities located in an urban growth market located within commuting distance of Washington D.C.

123 Commerce Valley East is an eight-storey Class A suburban office building with 203,500 square feet on 10.6 acres of land in Markham, Ontario. The building is highly visible from the Highway 407/404 interchange, providing exceptional signage opportunity for anchor tenants. The acquisition provides the Company with future growth. In-place zoning, surplus density and abundant existing parking give the Company the potential for an additional 270,000 square feet of office space on the property.

Northgate at Falls Church is a newly built, 104-suite mid-rise apartment building located in the Greater Washington D.C. suburb of Falls Church, Virginia. The property includes 33,000 square feet of high street commercial space and modern amenity space, including community courtyards with patio fireplace and grill, fitness centre, clubroom and garage parking.

Camelot Business Centre is a 106,500 square foot institutional quality suburban office property with 409 surface parking stalls located in Ottawa, Ontario. The property is strategically located in the Merivale and Hunt Club area of South Ottawa and in very close proximity to an abundance of retail amenities. Hunt Club Road serves as a main east-west artery in the city of Ottawa making this a highly accessible location for commuters and employees. The building is 100% leased, 99% of which is leased to the Federal Government of Canada on a long-term basis.

Argus Corporate Centre is a five-storey Class A suburban office building located in Oakville, Ontario. The 74,500 square foot building is currently 100% occupied. The property is located in the heart of Midtown Oakville, a designated urban growth centre under the development plan of the Province of Ontario. The City of Oakville is targeting residential and commercial intensification as well as significant transit and infrastructure investment in the neighbourhood immediately surrounding the property. Under the plan, the property will be re-zoned to have the highest commercial density within the development area. The property is also conveniently located within close proximity to Oakville GO and VIA Rail transit hub and easy access to highways and also provides excellent signage and promotional opportunities for tenants.

Downsview Townhomes is a newly constructed residential property comprising 60 rental townhomes, located in Toronto, Ontario. The property was acquired before leasing had commenced and the lease-up of suites was completed in early 2018. The property is comprised of two- and three-bedroom rental townhomes that have open concept floor plans and modern finishes and is set in an ideal location on the edge of Downsview Park.

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 valuation team 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 team reports to a senior executive, and the internal valuation team's valuation processes and results are reviewed by senior management at least once every quarter, in line with the 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 3.8% to 11.5% (December 31, 2016 - 4.3% to 10.0%), resulting in an overall weighted average capitalization rate of 5.7% (December 31, 2016 - 5.8%).

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

As at	**December 31, 2017**					December 31, 2016				
	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%**	**90.0%**	**8.0%**	**3.8%**	**4.7%**	98.0%	91.0%	8.0%	4.3%	4.9%
Retail	**100.0%**	**80.0%**	**11.5%**	**5.0%**	**6.6%**	100.0%	80.0%	10.0%	5.0%	6.6%
Office	**100.0%**	**90.0%**	**9.0%**	**4.5%**	**6.2%**	100.0%	90.0%	9.0%	4.8%	6.2%
Industrial	**100.0%**	**95.0%**	**7.3%**	**5.0%**	**6.4%**	100.0%	95.0%	7.0%	5.3%	6.7%

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:

	December 31, 2017			December 31, 2016		
	Maximum	**Minimum**	**Weighted Average**	Maximum	Minimum	Weighted Average
Retail						
Discount rate	**10.3%**	**6.0%**	**7.0%**	10.3%	5.5%	6.9%
Terminal cap rate	**9.5%**	**5.3%**	**6.1%**	9.5%	5.3%	6.2%
Office						
Discount rate	**9.3%**	**5.5%**	**6.6%**	9.3%	5.8%	6.7%
Terminal cap rate	**8.5%**	**4.5%**	**5.9%**	8.5%	4.8%	6.0%
Industrial						
Discount rate	**7.5%**	**6.0%**	**6.9%**	7.5%	6.3%	7.1%
Terminal cap rate	**7.0%**	**5.0%**	**6.3%**	7.0%	5.3%	6.5%

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 December 31, 2017 and 2016, is set out in the table below:

As at	**December 31, 2017**		December 31, 2016	
Change in capitalization rate:	**0.25%**	**(0.25%)**	0.25%	(0.25%)
Multi-suite residential	**($192,310)**	**$213,190**	($161,023)	$178,134
Retail	**(87,742)**	**94,632**	(89,778)	96,843
Office	**(77,025)**	**83,518**	(71,937)	77,792
Industrial	**(3,791)**	**4,099**	(3,609)	3,899
	($360,868)	**$395,439**	($326,347)	$356,668

HOTEL PROPERTIES

Hotel properties consist of the following:

As at December 31	**2017**	2016
Cost	**$709,085**	$701,618
Accumulated impairment provision	**(24,590)**	—
Accumulated amortization	**(42,734)**	(16,094)
Net book value	**641,761**	685,524
Hotel property under development	**27,265**	20,139
Hotel properties	**$669,026**	$705,663

Hotel properties include the redevelopment of a hotel property in downtown Ottawa, Ontario. The redevelopment is the first dual brand conversion, of an existing building, under the Hilton banner in Canada and is set to be the first Hilton property in downtown Ottawa. The $30,000 plan calls for the redevelopment of two existing towers that will be transformed into a 17-storey Hilton Homewood Suites and a 10-storey Hilton Garden Inn. The project is expected to be completed in Spring 2018.

On September 15, 2017, the Company sold the Holiday Inn Express, Sherwood Park, Alberta, for gross proceeds of $9,690 (including working capital adjustments of $80), resulting in aggregate net cash proceeds of $278 after deducting the repayment of first mortgage loan of $9,102, interest payable of $19 and sale costs of $291.

In 2017, impairment indicators were identified including decreases in occupancy at hotel properties. A recoverability analysis was completed in accordance with the procedures specified by IFRS which indicated that an impairment of $24,590 should be recorded for certain hotel properties.

As at December 31, 2017	Wingate by Wyndham Regina	Saskatoon Inn	Hilton Garden Inn	Cortona Residence
Net book value	$16,932	$39,514	$21,469	$11,125
Recoverable amount	13,000	22,300	19,300	9,850
Provision for impairment	3,932	17,214	2,169	1,275
Cumulative impairment provision	3,932	17,214	2,169	1,275
Projected first year NOI	822	1,861	987	747
Discount rate	9.0%	10.0%	8.5%	10.5%

IFRS permits an impairment provision to be reversed in the subsequent accounting periods if recoverability analysis at that time supports reversal.

EQUITY-ACCOUNTED AND OTHER FUND INVESTMENTS

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

As at December 31	2017	2016
Joint ventures	**$55,051**	$50,782
Associates	**132,314**	230,198
Equity-accounted investments	**187,365**	280,980
Other real estate fund investments	**93,488**	99,828
Equity-accounted and other fund investments	**$280,853**	$380,808

The following are the Company's significant equity-accounted investments as at December 31, 2017 and 2016:

				Company's Ownership		Carrying Value	
Property/Investment	Principal Place of Business	Investment Type	Asset Type	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Petroleum Plaza	Edmonton, AB	Joint Venture	Office	**50.0%**	50.0%	**$27,080**	$28,201
Quinte Courthouse	Belleville, ON	Joint Venture	Office	**50.0%**	50.0%	**7,178**	7,267
Greypoint Capital L.P.	Toronto, ON	Joint Venture	Other	**36.4%**	36.4%	**5,497**	50
Courtyard by Marriott	Ottawa, ON	Joint Venture	Hotel	**50.0%**	50.0%	**10,883**	10,821
Marriott Residence Inn	London, ON	Joint Venture	Hotel	**50.0%**	50.0%	**4,413**	4,443
Sunset & Gordon	Los Angeles, CA	Associate	Residential	**59.1%**	59.1%	**47,733**	63,359
Marquee at Block 37	Chicago, IL	Associate	Residential	**49.0%**	49.0%	**68,162**	150,972
MIL Industrial Fund II LP[1]	Various	Associate	Industrial	**18.8%**	18.8%	**16,419**	15,867
						$187,365	$280,980

[1] 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 Company's largest equity investment is in a U.S. multi-suite residential development property project in Chicago, Illinois, in which the Company has a 49.0% interest. The development project, known as the Marquee at Block 37, a 34-storey, 691 luxury suite residential tower is complete and is currently 84.2% occupied.

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

As at December 31	2017	2016
Balance, beginning of year	**$280,980**	$233,469
Additions, net of disposals	**10,400**	1,490
Reclassification of Temple	**—**	(17,993)
Acquisitions through business combination	**—**	15,264
Share of net income (loss)	**(10,227)**	54,904
Distributions received	**(79,961)**	(4,446)
Foreign exchange	**(13,827)**	(1,708)
Balance, end of year	**$187,365**	$280,980

During the year ended December 31, 2017, distributions from equity-accounted investments amounted to $79,961, of which $74,992 (2016 - $nil) was from the Company's investment in Marquee at Block 37 that represented the Company's share of net proceeds from a mortgage refinancing.

MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable consist of the following:

As at December 31	2017	2016
Mortgages receivable	**$13,914**	$15,149
Loan receivable - Paros Enterprises Limited ("Paros")	**—**	2,314
Loan receivable - TWC Enterprises Limited ("TWC")	**11,767**	47,084
Loan receivable - other	**1,576**	—
Total mortgages and loans receivable	**$27,257**	$64,547

During 2016, mortgages receivable were advanced in the amount of $14,081 with a financial institution. The mortgages receivable mature on June 15, 2018, and bear interest at the bankers' acceptance rate plus 4.0%.

MORTGAGES PAYABLE

Mortgages payable totalled $4,056,028 at December 31, 2017, compared to $3,940,109 at December 31, 2016, representing an increase of $115,919 predominantly due to net proceeds from new financing of $711,961, partially offset by the repayment of mortgages discharged and matured of $388,307, scheduled principal repayments of $112,212 and the change in the foreign exchange rate of $79,824.

MORTGAGE CONTINUITY SCHEDULE

As at December 31	2017	2016
Opening mortgage balance	**$3,940,109**	$3,599,554
New mortgage financing	**711,961**	289,447
New mortgage financing costs	**(9,463)**	(5,886)
Mortgages discharged and matured	**(388,307)**	(200,682)
Scheduled principal repayments	**(112,212)**	(95,395)
Change in foreign exchange rate	**(79,824)**	(34,373)
Mortgages mark-to-market adjustment, net	**(10,640)**	(12,464)
Deferred financing costs	**4,404**	4,500
Consolidation of Temple	**—**	395,408
Closing mortgage balance	**$4,056,028**	$3,940,109

MORTGAGE REPAYMENT SCHEDULE

As at December 31, 2017	Principal Instalment Repayments	Balance Maturing	Total	Weighted Average Contractual Interest Rate
2018	$96,577	$515,414	$611,991	4.76%
2019	87,663	341,228	428,891	3.77%
2020	87,564	164,293	251,857	4.76%
2021	81,139	339,296	420,435	4.23%
2022	75,102	389,778	464,880	3.70%
Thereafter	171,371	1,707,248	1,878,619	3.57%
	$599,416	$3,457,257	4,056,673	3.86%
Mark-to-market adjustment, net			24,931	
Deferred financing costs			(25,576)	
			$4,056,028	

The Company's first mortgages are registered against specific real estate assets. As at December 31, 2017, mortgages payable bear interest at rates ranging between 2.25% and 8.20% per annum with a weighted average interest rate of 3.86% (December 31, 2016 - 3.91%) and mature between 2018 and 2039 with a weighted average term to maturity of 5.1 years (December 31, 2016 - 4.7 years). Approximately 94.1% 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, arrange for capital expenditures in accordance with predetermined limits and maintain ongoing liquidity ratios. As at December 31, 2017, Temple was not in compliance with seven (December 31, 2016 - nine) debt service covenants affecting seven (December 31, 2016 - nine) mortgage loans amounting to $109,339 (December 31, 2016 - $139,187). None of the lenders have demanded payment of the mortgage loans. As at December 31, 2017, Temple was not in compliance with a corporate 1.1 to 1.0 working capital ratio requirement affecting three mortgage loans schedules to mature in June 2018, with an aggregate principal balance of $37,106. Temple has received a waiver from the lender subsequent to December 31, 2017. However, IFRS requires that the loan balance of mortgages payable in breach of debt covenants be included in the current portion of mortgages payable. All mortgages payable in breach of debt covenants have contractual maturities due within 12 months of December 31, 2017.

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 mortgages contractual maturities over the next two years.

			2018			2019
Asset Type	Number of Properties	Principal Maturing	Weighted Average Interest Rate	Number of Properties	Principal Maturing	Weighted Average Interest Rate
Multi-suite residential	2	$66,051	4.68%	3	$96,195	3.21%
Retail	5	129,080	3.64%	2	145,869	3.63%
Office	3	64,161	3.72%	1	16,253	3.61%
Hotels(1)	18	254,827	5.59%	7	82,911	4.69%
	28	$514,119	4.75%	13	$341,228	3.77%

(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.

On January 16, 2017, the Company completed the financing of a multi-suite residential property located in Toronto, Ontario, in the amount of $168,350. The proceeds of the financing were used to repay the remaining construction financing facility balance of $93,000.

On February 1, 2017, the Company repaid on maturity, four mortgages in the amount of $59,326 (US$45,325) secured by four multi-suite residential properties in Mobile, Alabama.

During the three months ended March 31, 2017, the Company repaid $10,713 of mortgages payable secured by two hotel properties located in Yellowknife, Northwest Territories.

On May 1, 2017, the Company fully repaid, without penalty, three mortgages secured by three U.S. retail properties totalling $12,724 (US$9,805).

On June 1, 2017, the Company completed the refinancing of a multi-suite residential property located in Atlanta, Georgia, in the amount of $29,063 (US$21,528) at an interest rate of 3.84% for a term of 10 years.

On June 1, 2017, the Company completed the refinancing of a multi-suite residential property located in Aurora, Colorado, in the amount of $28,823 (US$21,350) at an interest rate of 3.84% for a term of 10 years.

On June 27, 2017, the Company completed the financing of two hotel properties in the amount of $15,588. The loan bears interest at either prime plus 2.50% or bankers' acceptance plus 3.50% for a term of two years.

On June 28, 2017, the Company completed the refinancing of a retail property located in Ottawa, Ontario, for $15,000 at an interest rate of 2.73% for a term of five years.

On June 30, 2017, the Company completed the refinancing of a multi-suite residential property located in Bradenton, Florida, in the amount of $23,374 (US$18,012) at an interest rate of 3.83% for a term of 10 years.

On July 6, 2017, the Company completed the financing of a multi-suite residential property located in Falls Church, Virginia, in the amount of $30,617 (US$23,650) at an interest rate of 4.05% for a term of 12.25 years.

On July 10, 2017, the Company completed the financing of a multi-suite residential property in Chicago, Illinois, in the amount of $157,878 (US$122,500) at an interest rate of 3.49% for a term of eight years.

On August 14, 2017, the Company completed the refinancing of three hotel properties in the amount of $36,337 at an interest rate of 5.20% for a term of five years.

On August 17, 2017, the Company completed the financing of a multi-suite residential property in Rockville, Maryland, in the amount of $88,546 (US$70,950) at an interest rate of 3.55% for a term of 10 years.

On August 30, 2017, the Company completed the refinancing of an office property located in Victoria, British Columbia, for $38,000 at an interest rate of 3.68% for a term of 10 years.

On September 29, 2017, the Company fully repaid, without penalty, three mortgages secured by three U.S. retail properties totalling $83,696 (US$67,064).

On November 1, 2017, the Company fully repaid on maturity, a mortgage secured by an industrial property located in Salaberry-de-Valleyfield, Québec, in the amount of $9,761.

On December 29, 2017, the Company completed the refinancing of a multi-suite residential property located in Tampa, Florida, in the amount of $40,144 (US$32,000) at an interest rate of 3.58% for a term of 10 years.

UNSECURED DEBENTURES

The Company's Unsecured Debentures consist of the following:

As at December 31	Maturity Date	Coupon Interest Rate	2017	2016
Series A senior unsecured debentures	December 10, 2018	4.099%	**$135,000**	$135,000
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**	—
Unamortized financing costs			**(2,093)**	(1,362)
			$532,907	$333,638

On December 10, 2013, the Company issued $135,000 (net proceeds including issuance costs - $134,315) of the Series A senior unsecured debentures due on December 10, 2018. Interest on the Series A unsecured debentures is payable semi-annually, not in advance, on June 10 and December 10 of each year. Paros, a related party, acquired $10,000 aggregate principal amount of the Series A unsecured debentures.

The Company has the option to redeem the Series A 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 0.56%.

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 unsecured debentures is payable semi-annually, not in advance, on May 18 and November 18 of each year commencing on May 18, 2017.

The Company has the option to redeem the Series B 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 unsecured debentures is payable semi-annually, not in advance, on March 15 and September 15 of each year commencing on March 15, 2018.

The Company has the option to redeem the Series C 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%.

For the year ended December 31, 2017, interest on Unsecured Debentures of $16,124 (2016 - $6,499) is 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 in Morguard REIT, Morguard Residential REIT and Temple using the equity method of accounting. 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.

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

	Covenant Requirements	**December 31, 2017**	December 31, 2016
Interest coverage ratio	1.65	**3.66**	3.56
Indebtedness to aggregate assets ratio(1)	Less than or equal to 65%	**37.6%**	37.9%
Adjusted shareholders' equity(2)	Not less than $300,000	**$3,160,753**	$3,081,695

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

(2) As defined in the Trust Indenture and the First Supplemental Indenture, adjusted to exclude deferred 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 December 31, 2017, are $436,211 (December 31, 2016 - $174,406).

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

MORGUARD NON-CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

As at December 31, 2017	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
ASSETS						
Real estate properties	$8,655,651	($2,861,816)	($2,570,589)	$—	($78,817)	$3,144,429
Hotel properties	669,026	—	—	(442,187)	(43,260)	183,579
Equity-accounted and other fund investments	280,853	(27,080)	(37,295)	(10,498)	1,160,302	1,366,282
Investment in Class C LP Units	—	—	—	—	92,577	92,577
Other assets	506,456	(32,195)	(43,213)	(29,519)	86,521	488,050
Total assets	$10,111,986	($2,921,091)	($2,651,097)	($482,204)	$1,217,323	$5,274,917
LIABILITIES						
Mortgage payable and Class C LP Units	$4,056,028	($1,080,258)	($1,257,049)	($367,614)	$23,413	$1,374,520
Construction financing, loans and bank indebtedness	86,126	(52,861)	(21,799)	(13,500)	70,299	68,265
Class B LP Units	—	—	(258,863)	—	258,863	—
Unsecured Debentures	532,907	—	—	—	—	532,907
Convertible debentures	236,375	(166,983)	(60,466)	(74,737)	65,811	—
Morguard Residential REIT Units	365,438	—	—	—	(365,438)	—
Deferred income tax liabilities	646,884	—	(82,482)	(2,311)	(562,091)	—
Accounts payable and accrued liabilities	253,859	(55,398)	(52,732)	(18,173)	10,916	138,472
Total liabilities	6,177,617	(1,355,500)	(1,733,391)	(476,335)	(498,227)	2,114,164
Adjusted shareholders' equity	3,934,369	(1,565,591)	(917,706)	(5,869)	1,715,550	3,160,753
Total liabilities and equity	$10,111,986	($2,921,091)	($2,651,097)	($482,204)	$1,217,323	$5,274,917

COMPUTATION FOR INTEREST COVERAGE RATIO

Year ended December 31, 2017	Morguard Consolidated	Morguard REIT	Morguard Residential REIT	Temple	Adjustments	Morguard Non-Consolidated Basis
Revenue from real estate properties	$790,535	($278,754)	($226,495)	$—	($2,431)	$282,855
Revenue from hotel properties	237,116	—	—	(165,612)	—	71,504
Property operating expenses	(338,070)	121,729	103,759	—	(11,786)	(124,368)
Hotel operating expenses	(175,714)	—	—	122,727	—	(52,987)
Net operating income	513,867	(157,025)	(122,736)	(42,885)	(14,217)	177,004
Management and advisory fees and distributions	71,786	—	—	—	44,488	116,274
Interest and other income	8,907	(179)	529	(380)	1,404	10,281
Sales of product and land, net of costs	1,906	—	—	—	—	1,906
Property management and corporate(1)	(82,862)	4,517	12,618	3,410	(15,357)	(77,674)
Other income (expense)(2)	296	—	—	—	—	296
Distributions from Morguard REIT and Morguard Residential REIT	—	—	—	—	46,553	46,553
EBITDA	$513,900	($152,687)	($109,589)	($39,855)	$62,871	$274,640
Interest expense	$191,965	($55,087)	($58,497)	($28,609)	$24,248	$74,020
Interest capitalized to development projects	1,778	(662)	—	—	—	1,116
Interest expense for interest coverage ratio	$193,743	($55,749)	($58,497)	($28,609)	$24,248	$75,136

(1) Morguard consolidated property management and corporate expense for the year ended December 31, 2017, 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 $3,012.

(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	December 31, 2017	December 31, 2016
Morguard REIT [1]		—	—	—	—	**$—**	$100,336
Morguard REIT	December 31, 2021	$20.40	4.50%	$175,000	$60,000	**108,335**	116,625
Morguard Residential REIT [2]	March 30, 2018	$15.50	4.65%	$60,000	$5,000	**55,466**	54,779
Temple - Series C [3]		—	—	—	—	—	21,922
Temple - Series D [4]		—	—	—	—	—	31,450
Temple - Series E [5]	September 30, 2020	$9.75	7.25%	$42,905	$1,067	**39,366**	41,877
Temple - Series F	March 31, 2018	$39.12	7.00%	$34,419	$600	**33,208**	30,763
						$236,375	$397,752

[1] On January 9, 2017, the remaining convertible debenture balance of $99,957 was fully redeemed by the Company.
[2] The liability includes the fair value of the conversion option of $798 (December 31, 2016 - $641).
[3] The Series C convertible debentures had a December 31, 2016 due date but since December 31, 2016 fell on a weekend, the Company repaid the convertible debentures on January 3, 2017, the first business day after December 31, 2016.
[4] On June 30, 2017, the Company repaid the remaining Series D convertible debentures on maturity.
[5] The Series E convertible debentures had a September 30, 2017 due date but since September 30, 2017 fell on a weekend, the convertible debentures had a maturity date on October 2, 2017, the first business day after September 30, 2017. On October 2, 2017, the terms of the Series E convertible debentures were amended, which included extending the maturity date to September 30, 2020 and reducing the conversion price to $9.75 (see below).

MORGUARD REIT

On October 31, 2012, Morguard REIT issued $150,000 principal amount of 4.85% convertible unsecured subordinated debentures and incurred issue costs of $4,228 for net proceeds of $145,772. On January 6, 2017, $18 of the convertible debentures were converted into 731 Units and on January 9, 2017, the remaining $149,957 ($99,957 excluding principal owned by the Company) convertible debentures were redeemed in advance of their October 31, 2017 maturity date.

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. On January 12, 2017, the Company purchased an additional $10,000 principal amount of the 4.50% convertible unsecured subordinated debentures.

MORGUARD RESIDENTIAL REIT

On March 15, 2013, Morguard Residential REIT issued $60,000 principal amount of 4.65% convertible unsecured subordinated debentures and incurred issue costs of $2,062, which have been capitalized and are being amortized over their term to maturity. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year (see “Part VIII, Subsequent Events”).

TEMPLE HOTELS INC.

On January 3, 2017, Temple redeemed the remaining $22,773 ($21,922 excluding principal owned by the Company) Series C convertible debentures on maturity.

On June 30, 2017, Temple redeemed the remaining $34,282 ($33,137 excluding principal owned by the Company) Series D convertible debentures on maturity.

As at December 31, 2017, the 7.25% Series E convertible debentures have a principal balance of $42,905. The Series E convertible debentures are redeemable at the option of Temple at their principal amount. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year.

On September 28, 2017, holders of the Series E convertible redeemable unsecured debentures approved the following proposed amendments to the Series E debentures, effective October 2, 2017:

i) Decreasing the conversion price from $40.08 to $9.75 per common share of Temple;
ii) Extending the maturity date from September 30, 2017 to September 30, 2020;
iii) Permitting Temple to redeem the Series E debentures, in whole or in part, at any time up to September 30, 2020, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding the date of the redemption; and
iv) Permitting Temple to complete the Initial Partial Redemption (as defined below) without further notice or communication to holders of Series E debentures and to complete the Additional Partial Redemptions (as defined below).

On October 2, 2017, Temple redeemed $2,259 ($2,202 excluding principal owned by the Company) of the principal amount of the Series E debentures outstanding, which represents approximately 5% of the issued and outstanding Series E debentures (the "Initial Partial Redemption"). Temple has also committed to redeem an additional 5% of the currently issued and outstanding principal amount of Series E debentures on each of September 30, 2018 and September 30, 2019 (the "Additional Partial Redemptions"). Each of the Initial Partial Redemption and the Additional Partial Redemptions will be for a cash payment equal to the principal amount of such redemption plus accrued and unpaid interest to, but excluding the date of redemption. On October 2, 2017, the convertible debentures, with the exception of $2,120, the value assigned to the holder's conversion option, have been recorded as debt on the consolidated balance sheets.

As at December 31, 2017, the 7% Series F convertible debentures have a principal balance of $34,419. The Series F convertible debentures are redeemable at the option of Temple at the principal amount. Interest is payable semi-annually, not in advance, on March 31 and September 30 of each year.

For the year ended December 31, 2017, interest on convertible debentures net of accretion of $21,417 (2016 - $7,030), is included in interest expense.

MORGUARD RESIDENTIAL REIT UNITS

As at December 31, 2017, the Company owned a 46.9% (December 31, 2016 - 48.7%) 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.

On January 9, 2017, Morguard Residential REIT completed an offering for 4,370,000 Units sold for a price of $13.75 per Unit for aggregate gross proceeds of $60,088. The net proceeds of the offering, after underwriters' commission and other closing costs totalling $2,402, was $57,686. The Company purchased 1,230,000 of the Units offered amounting to $16,688.

As at December 31, 2017, the Company valued the non-controlling interest in Morguard Residential REIT Units at $365,438 (December 31, 2016 - $292,304) 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 year ended December 31, 2017 of $49,066 (2016 - $77,755) in the consolidated statements of income.

CONSTRUCTION FINANCING PAYABLE

As at December 31, 2017, the Company has a construction financing facility with maximum available borrowings totalling $39,255 (December 31, 2016 - $184,255) collateralized by a development property. The construction financing facility bears interest at either prime rate plus 1.5% or the bankers' acceptance rate plus 2.5%, maturing on April 30, 2018. As at December 31, 2017, the Company had borrowed $36,476 (December 31, 2016 - $93,000) in construction financing.

BANK INDEBTEDNESS

As at December 31, 2017 and 2016, the Company has credit facilities and operating lines of credit totalling $349,000, the majority of which can be borrowed in either Canadian or U.S. dollars and are subject to floating interest rates based on bankers' acceptance or LIBOR rates. 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 credit facilities and operating lines of credit. As at December 31, 2017, the Company had borrowed $49,650 (December 31, 2016 - $nil) and issued letters of credit in the amount of $15,048 (December 31, 2016 - $14,251) related to these facilities.

The bank credit agreements include certain restrictive undertakings by the Company. As at December 31, 2017, the Company is in compliance with all undertakings.

FINANCE LEASE OBLIGATION

The Company acquired a land lease in connection with the acquisition of a residential property. The Company has the option to purchase the land in September 2029 for US$7,150. The Company has classified the land lease as a finance lease under the assumption that substantially all the risks and rewards incidental to ownership have been transferred.

Future minimum lease payments under the finance lease are as follows:

As at December 31	2017	2016
Within 12 months	**$377**	$—
2 to 5 years	**1,677**	—
Over 5 years	**12,205**	—
Total minimum lease payments	**14,259**	—
Less: future interest costs	**(5,289)**	—
Present value of minimum lease payments	**$8,970**	$—

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the Company's financial liabilities for upcoming periods as at December 31, 2017, are as follows:

As at December 31, 2017	2018	2019	2020	2021	2022	Thereafter	Total
Mortgages payable	$611,991	$428,891	$251,857	$420,435	$464,880	$1,878,619	$4,056,673
Mortgage interest	140,413	119,820	108,126	92,065	77,978	140,197	678,599
Convertible debentures	90,911	1,987	37,759	115,000	—	—	245,657
Interest on convertible debentures	9,442	8,020	7,229	5,175	—	—	29,866
Unsecured Debentures	135,000	—	200,000	—	200,000	—	535,000
Interest on Unsecured Debentures	21,906	16,692	15,746	8,666	6,119	—	69,129
Construction financing payable	36,476	—	—	—	—	—	36,476
Bank Indebtedness	49,650	—	—	—	—	—	49,650
Accounts payable and accrued liabilities	244,889	—	—	—	—	—	244,889
Finance lease obligation	377	390	429	429	429	12,205	14,259
	$1,341,055	$575,800	$621,146	$641,770	$749,406	$2,031,021	$5,960,198

EQUITY

Total equity increased by $263,238 to $3,934,369 at December 31, 2017, compared to $3,671,131 at December 31, 2016.

The increase in equity was primarily the result of:

- Net income for the year ended December 31, 2017 of $344,367; and
- A decrease in subsidiary ownership interest of $63,410.

These items were partially offset by:

- Unrealized foreign currency translation loss of $81,432;
- A change in ownership of Morguard REIT of $16,779;
- Repurchase of common shares through the Company's normal course issuer bid amounting to $15,834;
- Non-controlling interest distributions of $27,032; and
- Dividends paid of $7,127.

During the year ended December 31, 2017, 88,309 common shares were repurchased through the Company's normal course issuer ("NCIB") for cash consideration of $15,834.

At December 31, 2017, 11,841,732 common shares were outstanding. As at February 22, 2018, 11,477,489 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 year ended December 31, 2017, Morguard received approximately $51,522 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.

Cash Provided by Operating Activities

Cash provided by operating activities during the year ended December 31, 2017, was $315,528, compared to $285,058 in 2016. 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 year ended December 31, 2017, totalled $689,853, compared to cash used in investing activities of $180,750 in 2016. The cash used in investing activities reflects:

- Additions to real estate properties and tenant improvements of $713,279;
- Additions to hotel properties of $16,786;
- Additions to capital assets and intangibles of $18,107;
- Proceeds from sale of real estate properties of $88,685;
- Proceeds from sale of hotel properties of $9,399;
- An investment in properties under development of $66,701;
- Investment in equity-accounted and other fund investment, net of $10,400; and
- The net decrease from mortgages and loans receivable of $37,336.

Cash Provided by Financing Activities

Cash provided by financing activities during the year ended December 31, 2017, totalled $264,000, compared to cash provided by financing activities of $44,992 in 2016. The cash provided by financing activities reflects:

- Proceeds from new mortgages, net financing cost of $705,619;
- Repayment of mortgages on maturity of $388,307;
- Mortgage principal repayments of $112,212;
- Net proceeds from bank indebtedness of $45,008;
- Net proceeds from the issuance of Units of $40,998;
- Proceeds from issuance of Unsecured Debentures, net of costs of $198,800;
- Redemption of convertible debentures of $157,218;
- Net repayment of construction financing of $56,524;
- Dividends paid of $6,979;
- Contribution from non-controlling interest of $63,410;
- Distributions to non-controlling interests of $26,742;
- Common shares repurchased for cancellation of $15,834;
- An investment in Morguard REIT of $26,797; and
- A decrease in restricted cash of $778.

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 $10,000 aggregate principal amount of the Company's Series A 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 December 31, 2017 was $nil (December 31, 2016 - receivable of $2,314). During the year ended December 31, 2017, the Company incurred interest expense of $62 (2016 - earned interest of $16).

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 year ended December 31, 2017, the Company received a management fee of $836 (2016 - $1,105), and paid rent and operating expenses of $710 (2016 - $978).

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 receivable outstanding as at December 31, 2017 was $11,767 (December 31, 2016 - $47,084). During the year ended December 31, 2017, the Company earned interest of $403 (2016 - $174).

SHARE/UNIT PURCHASE AND OTHER LOANS

As at December 31, 2017, share/Unit purchase and other loans to officers and employees of the Company and its subsidiaries of $5,519 (December 31, 2016 - $5,550) are outstanding. The share/Unit purchase 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 8, 2019. Other loans are secured against the underlying asset. The loans are classified as amounts receivable on the consolidated balance sheets. As at December 31, 2017, the fair market value of the common shares/Units held as collateral is $90,804.

KEY MANAGEMENT COMPENSATION

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company's key management personnel include the Chairman and Chief Executive Officer, President (MIL), Chief Financial Officer, Executive Vice President, Retail Asset Management (MIL), and Executive Vice President, Office/Industrial Asset Management (MIL).

The compensation paid or payable to key management for employee services is shown below:

For the years ended December 31	2017	2016
Salaries and other short-term employee benefits	**$4,335**	$3,954
SARs	**1,074**	2,591
	$5,409	$6,545

PART VII

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements for the years ended December 31, 2017 and 2016, have been prepared in accordance with IFRS. A summary of the significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2017.

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

In determining estimates of fair market value for the Company's income producing properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Significant estimates used in determining fair value of the Company's income producing properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates, inflation rates and operating costs). Should any of these underlying assumptions change, actual results could differ from the estimated amounts.

Property and equipment and investments in joint arrangements are assessed for impairment. Significant assumptions are used in the assessment of fair value and impairment including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount rate, appropriate growth rates (revenues and costs) and changes in market valuation parameters. Management considers various factors in its assessment including the historical performance of property and equipment and investments in joint arrangements, expected trends in each specific market as well as local and macroeconomic conditions.

The estimated useful lives and related amortization method are determined for each component of hotel properties. The selected amortization method and estimate of useful life impact the amount of amortization expense recognized. In establishing useful lives and related amortization method management considers its capital maintenance plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

De Facto Control

IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") prescribes that the Company may have control over an investment even if the Company holds less than a majority of the investee's voting rights (*de facto* control). In accordance with IFRS 10, the following are the criteria that the Company uses to determine if *de facto* control exists: (i) the Company holds a significant voting interest (but less than half of the voting rights); (ii) there is wide diversity of public holdings of the remaining voting rights; (iii) the Company has the majority of the voting quorum according to historical participants in the general meetings of the Unitholders; and (iv) the Company has the ability to establish policies and guide operations by appointing the investee's senior management. Judgment is applied by management in determining the existence of *de facto* control.

Real Estate Properties

Real estate properties include multi-suite residential, retail, office, industrial and hotel properties held to earn rental income (income producing properties) and properties or land that are being constructed or developed for future use as income producing properties. Real estate properties, with the exception of hotel properties, are recorded at fair value, determined based on available market evidence, at the balance sheet date. The Company determined the fair value of each real estate property based upon, among other things, rental income from current leases and assumptions about rental income from future leases, reflecting market conditions at the applicable balance sheet dates, less future cash outflow pertaining to the respective leases. The residential properties are appraised using the direct capitalization income method. The retail, office and industrial properties are appraised using a number of approaches that typically include a discounted cash flow analysis 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. To assist with the evaluation of fair value, the Company has its Canadian properties appraised by Morguard's appraisal division. Morguard's appraisal division is staffed with accredited members of the AIC who, collectively, in 2017 valued approximately $15 billion of real estate properties in Canada and the U.S. for institutional and corporate clients.

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

IFRS 3, *Business Combinations* ("IFRS 3")

Accounting for business combinations under IFRS 3 applies only if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purposes of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Company. A business generally consists of inputs, processes applied to those inputs and resulting outputs that are or will be used to generate revenue. Judgment is used by management in determining if the acquisition of an individual property qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of a real estate or hotel property or a portfolio of properties is a business combination or an asset acquisition, the Company applies judgment when considering whether the property or properties are acquired with significant processes.

Joint Arrangements

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

The Company applies judgment to determine whether the joint arrangements provided it with joint control, significant influence or no influence and whether the arrangements are joint operations or joint ventures.

Leases

The Company applies judgment in determining whether certain leases, in particular those tenant leases with long contractual terms and long-term ground leases where the Company is the lessor, are operating or finance leases.

Income Taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

In accordance with IFRS, the Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, current income tax assets and liabilities are based on the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amounts of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

Revenue Recognition

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

Fair Value of Financial Instruments

Management reports on a quarterly basis the fair value of financial instruments. The fair value of financial instruments approximates amounts at which these instruments could be exchanged between knowledgeable and willing parties. The estimated fair value may differ in amount from that which could be realized on an immediate settlement of the instruments. Management estimates the fair value of mortgages payable by discounting the cash flows of these financial obligations using December 31, 2017, market rates for debts of similar terms.

FINANCIAL INSTRUMENTS

Financial instruments must be classified into one of the following specified categories: at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables and other financial liabilities.

The Company's financial assets and financial liabilities comprise cash, restricted cash, amounts receivable, mortgages and loans receivable, accounts payable and accrued liabilities, bank indebtedness, construction financing payable, mortgages payable, loans payable, finance lease obligation, Unsecured Debentures and convertible debentures (excluding any conversion option). Fair values of financial assets and financial liabilities and a discussion of risks associated with financial assets and 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 and finance lease obligation 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 December 31, 2017, market rates for debts of similar terms. Based on these assumptions, the fair value as at December 31, 2017, of the mortgages payable before deferred financing costs and mark-to-market adjustments is estimated at $4,177,548 (December 31, 2016 - $4,063,448), compared with the carrying value of $4,056,673 (December 31, 2016 - $3,925,657). 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 December 31, 2017, the fair value of the Unsecured Debentures has been estimated at $542,453 (December 31, 2016 - $341,099) compared with the carrying value of $535,000 (December 31, 2016 - $335,000).

The fair value of the convertible debentures liability is based on their market trading prices. As at December 31, 2017, the fair value of the convertible debentures before deferred financing costs has been estimated at $248,710 (December 31, 2016 - $406,655), compared with the carrying value of $245,657 (December 31, 2016 - $412,893).

The fair value of the finance lease obligation is determined by discounting the cash flows of the financial obligation using December 31, 2017, market rates for debt on similar terms. Based on these assumptions, as at December 31, 2017, the fair value of the finance lease obligation has been estimated at $8,970 (December 31, 2016 - $nil), compared with the carrying value of $8,970 (December 31, 2016 - $nil).

ADOPTION OF ACCOUNTING STANDARDS

Current Accounting Policy Changes

Amendments to IAS 7, *"Statement of Cash Flows"* ("IAS 7")

The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments do not define financing activities, instead they clarify that financing activities are based on the existing definition used in IAS 7. The amendments are to be applied prospectively effective for annual periods beginning January 1, 2017.

The amendments did not have a material impact on the Company's consolidated financial statements.

Future Accounting Policy Changes

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

In May 2014, the IASB issued IFRS 15, a single comprehensive model to account for revenue arising from contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018.

The Company is in its final stages of its assessment of the impact of this standard on its consolidated financial statements. The assessment included a review of contracts for the scoped-in streams including rents from tenants under leases, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income, incidental income, revenue from hotel services and product sold as well as management and advisory fees. For rental revenue and related recoveries, management has determined that the pattern of revenue recognition will remain unchanged upon adoption of the standard and the impact will be limited to additional note disclosure on the disaggregation of some of the Company's revenue streams. The Company will complete its review of all contracts and will adopt the new standard on the required effective date.

IFRS 9 (2014), *Financial Instruments* ("IFRS 9")

The final version of IFRS 9 was issued by the IASB in July 2014 and will replace IAS 39, "Financial Instruments: *Recognition and Measurement*" ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and liabilities within the scope of the current IAS 39 and a new expected loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss and to measure equity-based financial assets either as held-for-trading or as fair value through other comprehensive income ("FVTOCI"). No amounts are reclassified out of other comprehensive income if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018.

The Company is performing an assessment of key areas within the scope of IFRS 9 which includes, but not limited to, the change in classification and measurement of: (i) mortgages and loans receivable measured at amortized cost to FVTPL and (ii) available-for-sale securities measured at FVTOCI to FVTPL. The Company intends to adopt the new standard on the required effective date of January 1, 2018 and will not restate comparative information.

IAS 40, *Investment Property* ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018.

The amendment is not expected to have a material impact on the Company's consolidated financial statements.

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, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted so long as IFRS 15 has been adopted.

The Company is currently assessing the impact this new standard will have on its consolidated financial statements.

RISKS AND UNCERTAINTIES

An investment in securities of the Company involves significant risks. Investors should consider carefully the risks described below, the other information described elsewhere in this MD&A (as updated by any subsequent interim MD&A) and those risks set out in the Company's Annual Information Form ("AIF") for the year ended December 31, 2017, dated February 22, 2018, before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely affected. In that case, the trading price of securities of the Company could decline, and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

There are certain risks inherent in an investment in the securities of the Company and in the activities of the Company, including those set out in the Company's publicly filed disclosure available on SEDAR.

The following are business risks the Company expects to face in the normal course of its operations and management's strategy to reduce the potential impact.

OPERATING RISK

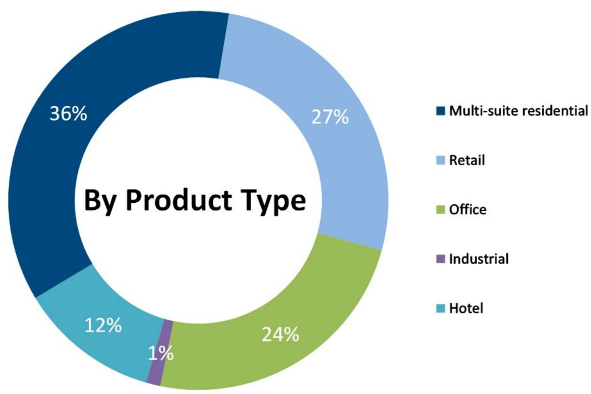
Real estate has a high fixed cost associated with ownership, and income lost due to vacancies cannot easily be minimized through cost reduction. Tenant retention is critical to maintaining occupancy levels. Through well-located and professionally managed properties, management seeks to increase tenant loyalty and become the landlord of choice. Morguard reduces operating risk through diversification. The Company diversifies its portfolio by tenants, lease maturities, product and location.

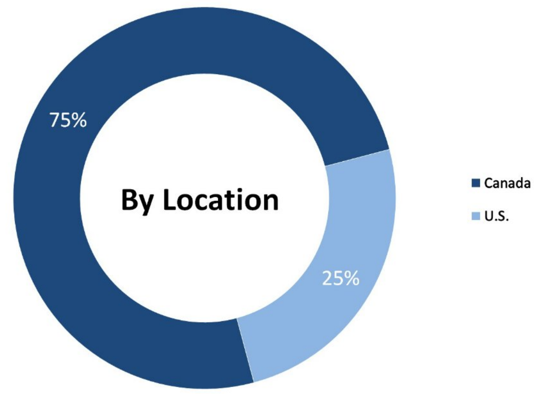
Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the Company is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale.

The Company is also subject to utility and property tax risk relating to increased costs that the Company may experience as a result of higher resource prices, as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of revaluations of municipal properties and their adherent tax rates. In some instances, enhancements to properties may result in a significant increase in property assessments following a revaluation. Additionally, utility expenses, consisting mainly of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Unlike commercial leases, which generally are "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases, and the landlord is not able to pass on costs to its tenants.

In connection with the prudent management of its properties, the Company makes significant property capital investments (for example, to upgrade and maintain building structure, balconies, parking garages, roofing, and electrical and mechanical systems). The Company commissioned building condition reports in connection with the acquisition of each of the properties and has committed to a multi-year property capital investment plan based on the findings of such reports. The Company continually monitors its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its property capital investment programs. The Company requires sufficient capital to carry out its planned property capital investment and repair and refurbishment programs to upgrade its properties or it could be exposed to operating business risks arising from structural failure, electrical or mechanical breakdowns, fire or water damage, etc., which may result in significant loss of earnings to the Company.

The portfolio diversification is shown by percentage of NOI for the year ended December 31, 2017:





REPORTING INVESTMENT PROPERTY AT FAIR VALUE

The Company holds investment property to earn rental income or for capital appreciation or both. All investment properties are measured using the fair value model under IFRS, whereby changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Management values each investment property based on the most probable price that a property could be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, such as the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Each investment property has been valued on a highest-and-best-use basis.

There is a risk that general declines in real estate markets or sales of assets by the Company under financial or other hardship would have an impact on the fair values reported or on the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect the Company's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could have significant impact on the Company's operating revenues and cash flows, as well as the fair values of the investment properties.

FINANCING RISK

The Company is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities secured by the Company's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. To minimize this risk, Morguard has structured its debt maturities over a number of years and has negotiated fixed interest rates on approximately 94% of its mortgages payable.

CREDIT RISK

The Company's primary business is the ownership and operation of multi-suite residential, retail, office and hotel properties. The income stream generated by tenants paying rent can be affected by general and local economic conditions and by a change in the credit and financial stability of tenants. Examples of local conditions that could adversely affect income include oversupply of space or reduced demand for rental space, the attractiveness of the Company's properties compared to other space, and fluctuation in real estate taxes, insurance and other operating costs. The Company may be adversely affected if tenants become unable to meet their financial obligations under their leases.

Retail shopping centres traditionally rely on anchor tenants (department stores, junior department stores or grocery stores) as a source of significant revenue and in terms of generating traffic for the centre. Accordingly, the risk is present that an anchor tenant will move out or experience a failure, which would have a negative impact on the subject property.

The Company's five largest tenants account for 26.8% of the Company's annualized commercial rental revenue as follows:

Tenants as at December 31, 2017	Annualized Rental Revenue	GLA (000s)	% of Total GLA
Federal and provincial government	12.0%	1,499	9.5%
Penn West Petroleum Ltd.	7.2%	619	3.9%
TD Canada Trust	3.1%	443	2.8%
Bombardier Inc.	3.0%	556	3.5%
Loblaw Companies Limited	1.5%	266	1.7%
	26.8%	3,383	21.4%

COMMERCIAL LEASE ROLLOVER RISK

Lease rollover risk results from the possibility that the Company may experience difficulty in renewing leases as they expire or in re-leasing space vacated by a tenant upon expiry. Management attempts to stagger the lease expiry profile so that the Company is not exposed to disproportionate amounts of space expiring in any one year, as set out in the table below. Management further mitigates this risk by maintaining a diversified portfolio mix by both asset type and location.

Lease Expiries

Summary of Lease Expiries as at December 31, 2017		2018		2019		2020	
	Total Sq. Ft.	Sq. Ft.	%	Sq. Ft.	%	Sq. Ft.	%
Retail	8,183	1,069	13%	588	7%	1,082	13%
Office	6,483	316	5%	249	4%	611	9%
Industrial	1,196	151	13%	189	16%	9	1%
Total	15,862	1,536	10%	1,026	6%	1,702	11%

FOREIGN EXCHANGE RISK

A 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 risk with respect to future cash flows derived from the properties located in the United States. The Company's exposure to exchange rate risk could increase if the proportion of income from properties located in the United States increases as a result of future property acquisitions. The Company mitigates its foreign currency exposure by offsetting certain revenues earned in United States dollars from its U.S. properties against expenses and liabilities undertaken by the Company in United States dollars.

At December 31, 2017, the Canadian dollar value was US$0.80 compared to US$0.74 a year earlier. The average exchange rate for the year ended December 31, 2017, was US$0.77 compared to US$0.76 during 2016. The strengthening of the Canadian dollar during 2017 resulted in an unrealized foreign currency translation loss of approximately $81,432 recognized in other comprehensive income.

MORGUARD REIT AND MORGUARD RESIDENTIAL REIT UNITHOLDER TAXATION

At December 31, 2017, the Company owned 32,878,348 Units of Morguard REIT and 6,675,166 Units of Morguard Residential REIT and 17,223,090 Class B LP Units of Morguard NAR Canada Limited Partnership. The Class B LP Units are exchangeable, on a one-for-one basis, at the option of the Company, into Units of Morguard Residential REIT.

Legislation relating to the federal income taxation of a specified investment flow-through ("SIFT") trust or partnership was enacted on June 22, 2007 (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership or trust such as an income trust. Under the SIFT Rules, certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax. Under the SIFT Rules, the new taxation regime will not apply to a trust that meets prescribed conditions relating to the nature of its income and investments ("the REIT Exception").

The Company believes that Morguard REIT and Morguard Residential REIT (the "REITs") intend to comply with the requirements under Part 1 of the Income Tax Act (Canada) (the "Tax Act") at all relevant times such that they maintain their status as "unit trusts" and "mutual fund trusts" for purposes of the Tax Act. Under current law, a trust may lose its status under the Tax Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of non-residents, except in limited circumstances. Accordingly, non-residents may not be the beneficial owners of more than 49% of the Units (determined on a basic or a fully diluted basis). The Trustees of Morguard REIT and Morguard Residential REIT also have various powers that can be used for the purpose of monitoring and controlling the extent of non-resident ownership of the Units. The restrictions on the issuance of Units by the REITs to non-residents may negatively affect the REITs' ability to raise financing for future acquisitions or operations. In addition, the non-resident ownership restrictions could have a negative impact on the liquidity of the Units and the market price at which Units can be sold.

There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency with respect to mutual fund trusts will not be changed in a manner that adversely affects Unitholders.

Although, as of the date hereof, management believes that Morguard REIT and Morguard Residential REIT will be able to meet the requirements of the REIT Exception throughout 2018 and beyond, there can be no assurance that the REITs will be able to qualify for the REIT Exception such that the REITs and the Unitholders will not be subject to the SIFT Rules in 2018 or in future years.

VOLATILE MARKET PRICE FOR THE COMPANY'S SECURITIES

The market price for the Company's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following: (i) actual or anticipated fluctuations in the Company's financial performance and future prospects; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the Company; (iv) an addition to or departure of the Company's executive officers; (v) release or expiration of lock-up or other transfer restrictions on outstanding shares; (vi) sales or perceived sales of additional shares; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets; (ix) liquidity of the Company's securities; (x) prevailing interest rates; (xi) the market price of other Company securities; (xii) a decrease in the amount of dividends declared and paid by the Company; and (xiii) general economic conditions.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the Company's securities may decline even if the Company's financial performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance according to such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited investment or no investment in the Company's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, the Company's operations could be adversely affected and the trading price of the securities may be adversely affected.

DILUTION

The number of common shares and the principal amount of Unsecured Debentures under the Trust Indenture that the Company is authorized to issue are unlimited. The Company may, in its sole discretion, issue additional common shares and/or Unsecured Debentures from time to time subject to the rules of any applicable stock exchange on which the common shares are then listed and applicable securities law. The issuance of any additional common shares and/or Unsecured Debentures may have a dilutive effect on the interests of holders of common shares and/or Unsecured Debentures.

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 and operation are adequate and effective as of and for the year ended December 31, 2017. The Company's management has also evaluated the effectiveness of the internal controls over financial reporting and has concluded that their design and operation are effective as of and for the year ended December 31, 2017.

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.

During the year ended December 31, 2017, Morguard completed the conversion to a new enterprise resource planning (ERP) system, and financial reporting application. The ERP and financial reporting system conversion has not resulted in any significant changes in internal controls during the year ended December 31, 2017. Management employed appropriate procedures to ensure internal controls over financial reporting were in place during and after the conversion.

PART VIII

SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table shows information for revenue from income producing properties, revenue from hotel properties, NOI, net income attributable to common shareholders, FFO, dividends declared, total assets, non-current financial liabilities, and per common share amounts for the periods noted.

For the years ended December 31 (In thousands of dollars, except per common share amounts)	2017	2016	2015
Revenue from income producing properties	**$790,535**	$775,746	$762,033
Revenue from hotel properties	**237,116**	66,567	46,562
NOI	**513,867**	453,398	435,899
NOI per common share			
- basic and diluted	**43.24**	37.96	35.61
Net income attributable to common shareholders	**310,120**	172,745	80,542
Net income attributable to common shareholders per common share			
- basic and diluted	**26.10**	14.46	6.58
FFO	**225,072**	213,282	183,139
FFO per common share			
- basic and diluted	**18.94**	17.86	14.96
Dividends declared	**7,127**	7,163	7,305
Dividends per common share	**0.60**	0.60	0.60
Total assets	**10,111,986**	9,588,078	8,602,132
Non-current portion of financial liabilities:			
Mortgages payable	**3,440,069**	3,187,957	3,367,638
Unsecured Debentures	**398,152**	333,638	134,228
Convertible debentures	**147,701**	202,167	154,440
Morguard Residential REIT Units	**365,438**	292,304	229,416

Fourth Quarter Results 2017

The Company's net income for the three months ended December 31, 2017, increased by $74,935 to $109,084, compared to $34,149 in the fourth quarter of 2016. The increase in net income was primarily due to the following:

- An increase in NOI of $16,605 primarily due to the consolidation of Temple and acquisitions completed subsequent to the three months ended December 31, 2016. In addition, higher rental rates and lower operating expenses at the Company's residential properties increased NOI;
- A fair value gain of $18,648 on income producing properties mainly due to an increase in stabilized NOI;
- An increase in the fair value gain on MRG Units of $34,211 due to the change in market value of the Units; and
- A decrease in deferred income tax of $41,588, mainly resulting from a U.S. federal tax rate decrease from 35% to 21% enacted on December 22, 2017.

These items were partially offset by the following:

- A provision for impairment of $24,590 recorded during the three months ended December 31, 2017; and
- An increase in interest expense of $11,943 primarily due to the consolidation of Temple.

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 (Loss) Attributable to Common Shareholders	Net Income (Loss) to Common Shareholders per share - basic/diluted
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
June 30, 2017	275,700	134,737	128,508	53,427	179,567	151,526	12.72
March 31, 2017	270,939	101,093	120,557	47,601	32,452	15,742	1.32
December 31, 2016	231,842	123,058	116,200	53,067	34,149	34,694	2.89
September 30, 2016	230,337	119,862	113,957	53,545	70,505	63,403	5.31
June 30, 2016	227,679	117,675	111,830	58,992	93,197	81,754	6.85
March 31, 2016	232,118	92,803	111,494	47,678	12,073	(7,106)	(0.59)

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, an IFRIC 21 adjustment to realty taxes, equity income (loss) from investment, provision for impairment and deferred taxes.

On December 14, 2016, the Company increased its ownership in Temple from 38.9% to 55.9%. As a result of the acquisition of control, the Company converted the method of accounting for its investment in Temple from the equity method to the consolidation method effective December 31, 2016. Commencing January 1, 2017, the impact of consolidating Temple was significant on the Company's statements of income since Temple's revenue and expenses are fully consolidated in the Company's operating results.

During the second quarter of 2016, the Company received $22,490 in settlement proceeds from Target Corporation relating to the five leases that were disclaimed by Target Canada Corporation. The settlement proceeds were recorded to other income (expense) recognized in net income.

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. The Company also disposed of four multi-suite residential properties comprising 1,329 suites and one hotel property comprising 90 rooms during the third quarter of 2017.

During the second quarter of 2017, the Company acquired a multi-suite residential property comprising 60 rental townhomes and an office property consisting of approximately 36,500 square feet of commercial area.

Significant real estate property transactions during the year ended December 31, 2016

During the second quarter of 2016, the Company disposed of one office property comprising approximately 127,000 square feet of commercial area.

During the first quarter of 2016, the Company acquired a multi-suite residential property comprising 370 suites and three hotels comprising 417 rooms and disposed of one retail property comprising approximately 109,000 square feet of commercial area.

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 with the exception of an increase during the first quarter of 2017 due to the consolidation of Temple. In addition, the change in foreign exchange rates and the impact of acquisition net of disposal of properties (described above) and the completed development of The Heathview during 2016 also contributed to the increase in revenue.

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 as well as from the contribution of NOI from Temple. 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, is presented in the table above to illustrate a more comparable quarter to quarter analysis.

Net Income (Loss) Attributable to Common Shareholders

Taking into account the above factors for revenue, NOI variations and the consolidation of Temple, the change in net income (loss) 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, 2017 and 2016, due to an overall increase in stabilized NOI and compression in capitalization rates;
- During the second quarter of 2016, the Company recorded a fair value gain on its equity-accounted investment Marquee at Block 37 in connection with the completed development;
- The Company has recorded deferred tax expense coinciding with the fair value gains on the company's income producing 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 consolidation of Temple resulted in higher amortization of hotel properties subsequent to the fourth quarter 2016;
- An impairment provision of $24,590 recorded during the fourth quarter of 2017.

SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company acquired 1,119,660 units of Morguard REIT for cash consideration of $15,773.

Subsequent to December 31, 2017, the Company acquired 364,243 shares under NCIB for cash consideration of $65,659.

On January 9, 2018, the Company purchased a Class A industrial property located in Ottawa, Ontario, for a purchase price of $42,500, excluding closing costs.

On February 5, 2018, the Company purchased an office property located in Mississauga, Ontario, for a purchase price of $50,600, excluding closing costs.

On February 13, 2018, Morguard Residential REIT completed a public offering of convertible unsecured subordinated debentures on a bought deal basis, of $85,500 (including an over-allotment, $81,500 excluding principal owned by the Company) aggregate principal amount of 4.50% convertible unsecured subordinated debentures due March 31, 2023 (the "4.50% Debentures"). The 4.50% Debentures are convertible, at the option of the holder, into Units at $20.20 per Unit.

The Company will use the net proceeds from the offering to fund the redemption of all of the Company's outstanding 4.65% convertible unsecured subordinated debentures on February 26, 2018, which mature on March 30, 2018 and which have a par call date of April 1, 2017. The Company intends to use the remainder of the net proceeds, if any, to fund future acquisitions, for debt repayment and for general trust purposes.

PART IX

OUTLOOK

Generally speaking 2017 was a year of positives for real estate markets in Canada and the U.S., driven by an above-average economic performance. Investors were able to achieve healthy income growth across much of the market except for those who continued to suffer the effects of the recent resource sector malaise. Healthy rental demand patterns were observed in the office, industrial and multi-suite residential sectors overall, resulting in vacancy levels that generally ranged near the cycle low. Rental demand softness however continued to characterize resource-driven regions. In the retail sector, the discount and luxury market segments continued to expand. However the transformation of the sector driven by demographic and technological change resulted in store closures and downsizing activity. The most noteworthy casualty was the closure of all Sears Canada stores. Against this rental market backdrop, investment market performance was largely stable and healthy. The relative stability of our economy and commercial property market remained a draw for investment capital in a number of forms. Low cost debt continued to be a catalyst for investment along with strong overall performance characteristics. Capital availability surpassed the supply of core quality assets offered for sale. The pressure on the part of investors to place capital resulted in modest increases in value for the highest quality assets. Canadian property yields remained higher than long-term bond yields which added to the rationale for investing. The resulting sector liquidity was an additional element of what was a largely positive overall sector performance during the past year.

Looking to 2018, the real estate sector is expected to generate largely positive metrics, while investors monitor risks that may have an impact on performance. The national economies in Canada and the U.S. were forecast to expand by healthy margins. Stronger business investment activity and construction output are seen as drivers of economic output in the coming year. The 2018 economic performance should continue to support rental demand and income growth for owners in most market segments. The volume of available investment capital will result in a highly competitive investment market given ongoing access to low cost capital. While the outlook is broadly positive, investors will monitor performance risks that could affect values and performance. The main areas of sector risk include the potential for sharp increases in borrowing costs, the possibility of instituted protectionist trade measures in the U.S. related to the North American Free Trade Agreement and any interruption in the global economic recovery.

In 2018, the environment for acquisitions should continue to be extremely competitive. The Company remains disciplined in exploring new investment opportunities. Management will continue to seek acquisition opportunities, focusing on properties that are accretive in the long term. In addition to acquisitions, the Company also expects growth to come organically from within the existing portfolio and from intensification opportunities.

The Company’s strength stems from conservative financial leverage, significant cash retention and our highly diversified cash flow streams.