LOCATION^3

The power of location.

FIRST CAPITAL®

Green Shopping For Everyday Life®

a proven formula

corporate profile

First Capital Realty (TSX: FCR) is Canada's leading owner, developer and operator of supermarket and drugstore-anchored neighbourhood and community shopping centres located predominantly in growing urban markets. The Company currently owns interests in 169 properties, including seven under development, totalling approximately 23.2 million square feet of gross leasable area and three sites in the planning stage for future retail development. First Capital Realty has an enterprise value of over $6.2 billion and trades on the Toronto Stock Exchange.

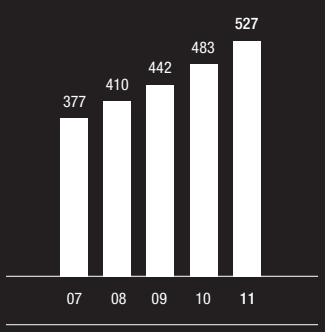
business strategy

First Capital Realty's primary strategy is the creation of value over the long term by generating sustainable cash flow and capital appreciation of its shopping centre portfolio. To achieve its strategic objectives the Company continues to:

- be focussed and disciplined in acquiring well-located properties, primarily older centres and adjacent sites to existing properties, in the Company's target urban markets;
- undertake selective development, redevelopment and repositioning activities on its properties including land use intensification;
- proactively manage its existing shopping centre portfolio;
- increase efficiency and productivity of operations; and
- seek the lowest cost of capital over the long term.

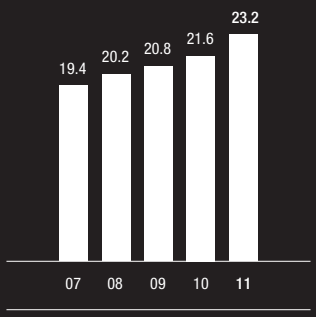
PROPERTY RENTAL REVENUE

($ millions)
For the year,[1]



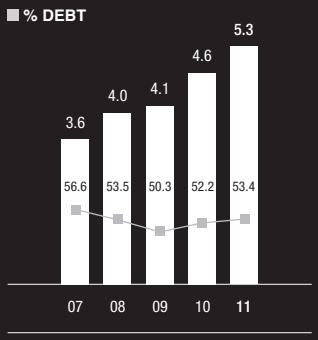
GROSS LEASABLE AREA

(millions of sq. ft.)
At December 31,



DEBT TO AGGREGATE ASSETS

($ billions)
At December 31,[1]



[1] 2010 amounts have been restated for the effects of International Financial Reporting Standards ("IFRS"). Amounts previous to 2010 are stated under Canadian GAAP ("GAAP")

building value

($ millions)	2011	2010[3]
Enterprise value	$ 6,215	$ 5,253
Debt to aggregate assets[1]	53.4%	52.2%
Debt to market capitalization	45.4%	46.0%
Property rental revenue	$ 526.7	$ 482.5
Net operating income	$ 340.1	$ 314.0

	2011 ($ millions)	2010 ($ millions)	2011 ($ per share)	2010 ($ per share)
Funds from operations (FFO)	$ 161.3	$ 152.7	$ 0.96	$ 0.95
FFO excluding other gains (losses) and (expenses)[1]	$ 162.4	$ 148.4	$ 0.96	$ 0.93
Weighted average diluted shares for FFO (thousands)			168,632	160,031
Adjusted funds from operations (AFFO)	$ 172.0	$ 160.6	$ 0.91	$ 0.89
AFFO excluding other gains (losses) and (expenses)[2]	$ 167.4	$ 152.9	$ 0.89	$ 0.85
Weighted average diluted shares for AFFO (thousands)			189,132	180,917

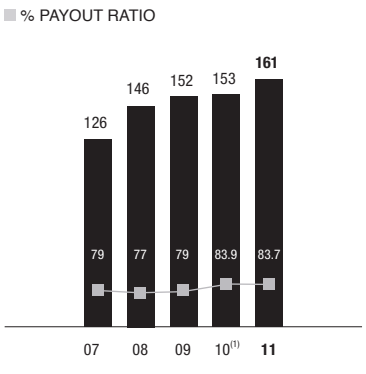
[1] Investment properties at cost.

[2] See Management's Discussion and Analysis.

[3] 2010 amounts have been restated for the effects of IFRS.

FUNDS FROM OPERATIONS

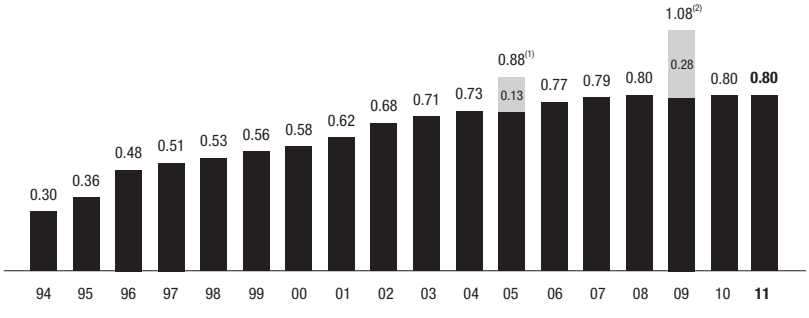
($ millions)



[1] 2010 amounts have been restated under IFRS. Amounts previous to 2010 are stated under GAAP.

18 YEARS OF DIVIDENDS

($ per share)



[1] Includes special dividend of $0.13 paid on April 6, 2005.

[2] Includes Gazit America dividend-in-kind of $0.28 distributed on August 14, 2009.

strength in numbers

A GROWTH STRATEGY APPLIED TO A STABLE BUSINESS

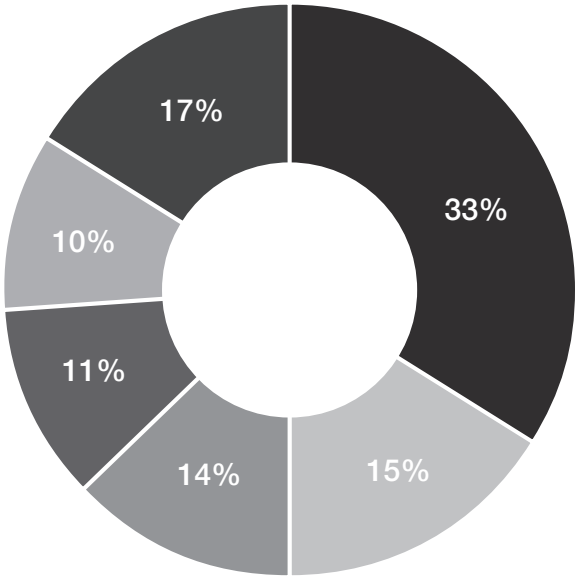
operating highlights

527	Property rental revenue increased 9.2% to $527 million
340	Net operating income increased 8.3% to $340 million
687	Invested $687 million in development activities, property improvements and acquisitions
16.81	Average rent per occupied square foot increased by 2.8% to $16.81
2.3	Same-property growth including expansion and redevelopment space increased by 2.3%
96.2	Occupancy percent at December 31, 2011

sustainable cash flow

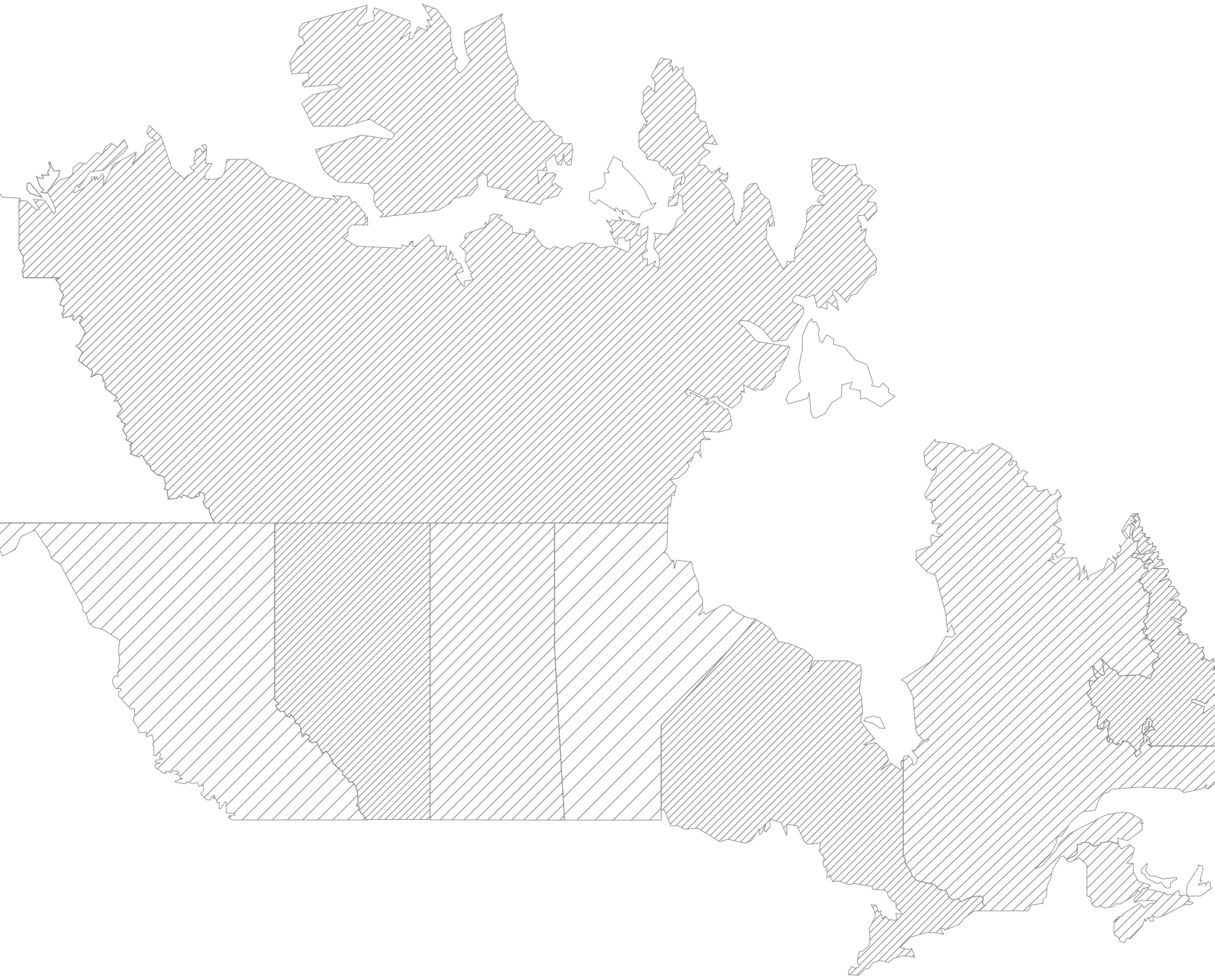
23.2	Million square feet of gross leasable area
90	Over 90% of our rents are from urban markets
89	Over 89% of our rents are from shopping centres anchored by supermarkets and/or drugstores
46	Approximately 46.1% of all annual minimum rents are from tenants with investment-grade credit ratings
40	Top 40 tenants provide 56.0% of annual minimum rents and occupy 60.1% of the gross leasable area
25	25 of the top 40 tenants have investment-grade credit ratings
10	Top 10 tenants provide 35% of annual minimum rents and are all investment-grade rated

tenant profile



Supermarkets, drugstores and liquor stores	33%
National and discount retailers	15%
Medical, gyms, daycare and other personal uses	14%
Restaurants, fast food and coffee shops	11%
Banks and governments	10%
Other retailers	17%

Sobeys SHOPPERS DRUG MART Loblaws



BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and operator of supermarket and drugstore anchored neighbourhood and community shopping centres located predominantly in growing urban markets. As at December 31, 2011, the Company owned interests in 169 properties, including seven development projects, totalling approximately 23.2 million square feet of gross leasable area and 3 land sites in the planning stage for future retail development.

First Capital Realty's primary strategy is the creation of value over the long term by generating sustainable cash flow and capital appreciation of its shopping centre portfolio. To achieve its strategic objectives Management continues to:

- be focussed and disciplined in acquiring well-located properties, primarily older centres and adjacent sites to existing properties in the Company's target urban markets;
- undertake selective development, redevelopment and repositioning activities on its properties including land use intensification;
- proactively manage its existing shopping centre portfolio;
- increase efficiency and productivity of operations; and
- seek the lowest cost of capital over the long term.

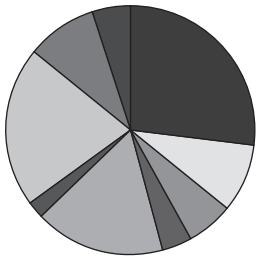
First Capital Realty was incorporated in November 1993 and conducts its business directly and through subsidiaries. Management, in measuring the Company's performance or making operating decisions, distinguishes its operations on a geographical basis. The Company operates solely in Canada, in three operating regions: Eastern region which primarily includes operations in Quebec, Central region which includes the Company's Ontario operations; and Western region which includes operations in Alberta and British Columbia. The regions are reported in a manner consistent with internal reporting provided to the chief operating decision maker in the Company.

Urban Focus

The Company targets specific urban markets with stable and/or growing populations. Specifically, the Company intends to continue to operate primarily in and around its target urban markets of the greater Toronto area including the Golden Horseshoe area and London; the Calgary and Edmonton area; the greater Vancouver area including Vancouver Island; the greater Montreal area; the Ottawa and Gatineau region and Quebec City. Over 90% of the Company's annual minimum rent is derived from these urban markets.

The Company has achieved critical mass in its target markets which helps generate economies of scale and operating synergies, as well as real-time local knowledge of its properties, tenants, neighbourhoods and the markets in which it operates. Within each of these markets the Company targets well-located properties with strong demographics that Management expects will attract quality tenants with long lease terms. First Capital Realty assesses the quality of locations based on a number of factors in the trade area of a property, including demographic trends, potential for competitive retail space and existing and potential tenants in the market.

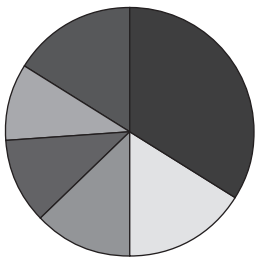
Markets*



Greater Toronto Area	24%
Golden Horseshoe	10%
Ottawa/Gatineau	8%
Southwestern Ontario	4%
Greater Montreal Area	20%
Quebec City	2%
Calgary/Edmonton/Red Deer	21%
Greater Vancouver Area	9%
Other	2%

Shopping for Everyday Life®

The Company looks to own and operate properties that provide consumers with products and services that are considered to be daily necessities or non-discretionary expenditures. Currently, over 80% of the Company's revenues come from tenants providing these daily necessity products and services including supermarkets, drugstores, banks, liquor stores, national discount retailers, quick service restaurants, fitness, medical and other personal services. Management looks to implement a specific complementary tenant offering at each of its properties to best serve the needs of the local community. In Management's view, shopping centres located in urban markets with tenants providing daily necessities are somewhat less sensitive to economic cycles and provide stable and growing cashflow over the long term.



Supermarkets, drugstores and liquor stores	33%
National and discount retailers	15%
Medical, gyms and other personal uses	14%
Restaurants, fast food and coffee shops	11%
Banks and governments	10%
Other retailers	17%

** Gross Leasable Area*

***Annual Minimum Rents*

Acquisitions of Shopping Centres

Management seeks to acquire well-located neighbourhood and community shopping centres in the Company's target urban markets focussing on the quality, sustainability and growth potential of rental income. These properties are acquired where they complement or add value to the existing portfolio or provide opportunity for redevelopment or repositioning. Once the Company has acquired a property in a specific retail trade area it will look to acquire adjacent or nearby properties. These additional adjacent properties allow the Company to provide maximum flexibility to its tenant base to meet their changing formats and size requirements over the long term. Adjacent properties also allow the Company to expand or intensify its existing property, providing a better retail offering for consumers. Management believes that its adjacent site acquisitions result in a better long-term return on investment with a lower level of risk.

Through acquisitions, the Company expands its presence in its target urban markets in Canada, and continues to generate greater economies of scale and leasing and operating synergies. Management will continue to look for strategic or portfolio acquisitions, in both existing markets and markets where the Company does not yet have a presence. Historically, portfolio opportunities with properties of the same quality as the Company's have been rare.

Development and Redevelopment

The Company pursues selective development and redevelopment activities including land intensification projects, primarily on its own, but also with joint venture partners, in order to achieve a better return on its portfolio over the long term. The redevelopment activities are focussed primarily on the older, well-located centres that the Company owns and actively seeks to acquire. These properties are redeveloped and expanded, over time, in conjunction with anchor tenant repositioning and changing retail environments. Redevelopment of existing properties generally carries a lower market risk due to the urban locations, existing tenant base and the intensification opportunities. Redevelopment projects are carefully managed to minimize tenant downtime and typically continue to operate during the planning, zoning and leasing phases of the project with modest "holdover" income from tenants operating during this period. The Company will sometimes carry vacant space in a property for a planned future expansion of tenants or reconfiguration of a property.

Management believes that the Company's shopping centres, along with its portfolio of adjacent sites, gives it a unique opportunity to participate in urban intensification in its various markets. The land use intensification trend in the Company's target urban markets is driven by the costs for municipalities to expand infrastructure beyond existing urban boundaries, the desire by municipalities to increase their tax base, environmental considerations and the migration of people to vibrant urban centres. The Company's intensification activities are focussed primarily on increasing retail space on a property and, to a lesser degree, adding mixed use density, including residential projects and office uses. The Company has proven development and redevelopment capabilities across the country to enable it to capitalize on these opportunities and expects these intensification activities to increase over the next several years.

To a lesser degree, the Company develops new properties on greenfield sites and typically has at least one greenfield development project in the planning stage or underway in each region. Currently, the Company has a total of seven projects in progress at various stages, from planning to near completion.

Investments in development and redevelopment activities generally range from 5%–8% of the Company's total assets (at invested cost) at any given time. Development activities are strategically managed to reduce leasing risks by obtaining lease commitments from anchor and major tenants prior to commencing construction. The Company also uses experts including architects, engineers and urban planning consultants, and negotiates competitive fixed-price construction contracts.

This provides the Company with an opportunity to use its existing platform to sustain and improve cash flows and realize capital appreciation over the long term through its ownership and development activities.

Proactive Management

The Company views proactive management of its existing portfolio and newly acquired properties as a core competency and an important part of its strategy. Proactive management means the Company continues to invest in properties to ensure they remain competitive by attracting quality retail tenants and their customers over the long term. Specifically, Management strives to create and maintain the highest standards in lighting, parking, access and general appearance of its properties. The Company's proactive management strategies have historically contributed to improvements in occupancy levels and average lease rates throughout the portfolio.

The Company is fully internalized and all value creation activities, including development management, leasing, property management, lease administration and legal, construction management and tenant co-ordination functions, are directly managed and executed by experienced real estate professionals. Employees with these real estate capabilities are located in each of the Company's offices in Toronto, Montreal, Ottawa, Calgary, Edmonton and Vancouver in order to effectively serve the major urban markets where First Capital Realty operates. In addition, a number of the Company's management team members possess significant retail experience which contributes to the Company's in-depth knowledge of its tenants and market trends.

The Company continues to focus on operating efficiency as it grows its business. Management is implementing new processes and systems necessary to capture, record and report both operating and financial results and effectively manage business execution while achieving higher levels of efficiency. Specifically, the Company is developing and implementing a fully integrated set of web-based tools for managing its leases, forecasting, property expenses and IFRS valuations.

Cost of Capital

The Company seeks the lowest cost of debt and equity capital over the long term. The Company's capital structure is key to financing growth and providing sustainable cash dividends to its shareholders. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that First Capital Realty's composition of debt, convertible debentures and equity in its capital base provides stability and reduces risks, while generating an acceptable return on investment, taking into account the long-term business strategy of the Company. The Company uses convertible debentures where both the interest and principal is payable in shares. The Company also recycles capital through selective disposition of full or partial interests in properties. Where it is deemed appropriate, the Company will raise equity as a source of financing its growth.

Company Key Performance Measures

There are many factors that contribute to the successful operation of First Capital Realty's business including rental rates, renewal rates, occupancy rates, tenant quality, availability of properties and development sites that meet the Company's acquisition criteria, financing rates, tenant inducements, maintenance and general capital expenditure requirements, development costs and the broader economic environment. The Company quantifies the collective results of all of these factors into key measures: funds from operations and adjusted funds from operations ("FFO" and "AFFO" respectively) per diluted share and the overall leverage level. FFO and AFFO are measures of operating performance that are not defined by IFRS and are reconciled to relevant IFRS measures in the "Results of Operations" section of this MD&A.

FFO and AFFO

The Company's FFO and AFFO (see definitions in "Results of Operations" section of this MD&A) have shown consistent performance, resulting primarily from growth in net operating income. FFO and AFFO for the years ended December 31, 2011 and 2010 are as follows:

Year ended December 31	**2011**	2010[1]
FFO per diluted share [2]	$ 0.96	$ 0.95
FFO per diluted share excluding other gains (losses) and (expenses)	$ 0.96	$ 0.93
AFFO per diluted share [2]	$ 0.91	$ 0.89
AFFO per diluted share excluding other gains (losses) and (expenses)	$ 0.89	$ 0.85

[1] 2010 amounts restated to reflect the adoption of IFRS. See additional discussion under "Results of Operations" section of this MD&A.
[2] FFO and AFFO are measures of operating performance that are not defined by IFRS. See "Results of Operations" section of this MD&A.

Leverage

The key leverage ratios demonstrate that the Company has continued to maintain a conservative balance sheet while growing the portfolio. Management believes that this along with its overall financing strategy will continue to provide the Company with financial flexibility which is critical against a backdrop of changing debt and equity markets.

On December 8, 2011, Moody's Investors Service ("Moody's") affirmed the Baa3 senior unsecured debenture rating for First Capital Realty and revised the rating outlook to positive, from stable. According to Moody's, the revision to a positive outlook reflects Moody's expectation that First Capital Realty will continue to steadily grow its shopping centre franchise throughout Canada's major markets while improving its financial profile with key metrics such as secured debt, unencumbered assets and fixed charge coverage moving solidly into the mid-Baa range. For further discussion refer to "Capital Structure and Liquidity" section of this MD&A.

Year ended December 31	**2011**	2010
Debt to total assets (IFRS basis) – at year end	46.4%	48.4%
Debt to total assets – 5 quarter average	48.0%	49.1%
Debt to market capitalization – at year end	45.4%	46.0%

In addition to these annual metrics, the Company looked to achieve long-term growth in cashflow and property valuations in 2011 and into 2012 through the following:

- selective acquisitions of strategic assets and adjacent sites;
- development, redevelopment and repositioning activities;
- active portfolio management, which ultimately results in higher rent growth;
- densification activities in the existing portfolio;
- increasing efficiency and productivity of operations; and
- improving the cost of both debt and equity capital.

Selective acquisitions

In 2011, the Company invested $444 million in acquisitions compared to $315 million in 2010. The increase reflects the increase in opportunities in the market to acquire properties that fit the Company's criteria.

Year ended December 31	**2011**	2010
Total investment in acquisitions (millions)	$ 444	$ 315
Income-producing properties		
Number of properties	7	4
Square feet (thousands)	1,359	658
Additional space and adjacent land parcels in existing properties		
Number of acquisitions	15	14
Square feet (thousands)	316	176
Acres	3.6	8.9
Additional interests in the existing portfolio		
Number of additional interests	—	4
Square feet (thousands)	—	170
Development lands		
Number of parcels	6	6
Acres	3.0	5.6

Development, redevelopment and repositioning activities

The Company continued to invest in development, redevelopment and repositioning of its existing properties as well as ongoing portfolio capital improvements including facades, lighting, signage, roofing and parking lots.

Year ended December 31	**2011**	2010
Investment in development activities and portfolio improvements (millions)	$ 244	$ 166
Gross leasable area of developed and redeveloped space brought on line (square feet)	514,000	384,000

Density includes additional retail use, ancillary office uses and, in certain projects, residential density. Currently the Company has two residential density projects underway, and two more in the entitlements process with municipalities. The residential density projects are ancillary to the Company's retail projects and are typically completed with a joint venture partner.

Measures currently used to monitor the Company's operating efficiencies are:

Year ended December 31	**2011**	2010
GLA (weighted average) per average full time equivalent employee	68,000	66,000
Net operating income per employee (thousands of dollars)	$ 1,105	$ 980
Corporate expenses, excluding non cash compensation		
as a percent of rental revenue	3.5%	3.9%
as a percent of total assets	0.30%	0.37%

Capital access and cost

The Company utilized multiple sources of debt and equity capital to finance its growth and replace maturing financings in the year, demonstrating its successes in ensuring multiple sources of capital to fund its growth.

Year ended December 31	2011		2010	
Sources of capital	**Amount (millions of dollars)**	**Pricing (weighted average)**	Amount (millions of dollars)	Pricing (weighted average)
Canadian credit facility capacity – unsecured [1]	$ 500.0	[2]	$ N/A	N/A
Canadian credit facility capacity – secured [1]	$ 50.0	BA + 1.75%	$ 300.0	BA + 2.50%
New mortgage financing in the year	$ 83.7	4.44%	$ 101.4	4.78%
Senior unsecured debentures issued	$ 325.0	5.54%	$ 400.0	5.50%
Convertible debentures issued	$ 165.0	5.30%	$ —	—
Equity [3]	$ 239.6	$ 16.22	$ 126.9	$ 12.97

[1] Credit facility pricing at December 31.

[2] Pricing is Canadian bankers' acceptances ("BA") + 2.00% and BA + 1.75% on two tranches.

[3] Includes issuance of common shares, payment of interest on convertible debentures, conversion of convertible debentures and exercises of option and warrants.

Management believes the Company's achievements in 2011 and 2010 in key performance metrics will lead to increased shareholder value over the long-term by generating sustainable cashflow and capital appreciation of its shopping centre portfolio.

OUTLOOK AND CURRENT BUSINESS ENVIRONMENT

The forward-looking statements contained in this section and elsewhere in this MD&A are not historical facts but, rather, reflect the Company's current expectations regarding future results or events and are based on information currently available to Management. Certain material factors and assumptions were applied in providing these forward-looking statements. See the "Forward-Looking Statement Advisory" section of this MD&A.

Over the past decade, First Capital Realty has made significant progress in growing its business across the country, focussing on key urban markets, and generating modest accretion in funds from operations, while dramatically enhancing the quality of its portfolio. The Company will continue to grow its business and property portfolio in the context of the acquisition, financing and tenant dynamics in Canada and its long term value creation strategy.

The urban property acquisition environment remains competitive for assets of similar quality to those the Company owns. The transaction activity in all classes of commercial real estate is high with many bids on quality properties, and asset valuations reflect this strong demand for well-located income-producing assets.

Urban municipalities where the Company operates continue to focus on increasing density within the existing boundaries of infrastructure. This provides the Company with multiple density development and redevelopment opportunities in its existing portfolio of urban properties, which includes an inventory of adjacent land sites and development land. Development activities continue to provide the Company with growth within its existing portfolio of assets. These activities also typically generate higher returns on investment over the long term and improve the quality and increase sustainable growth of property rental income.

The Company is now seeing a surge in entry into the Canadian retail landscape from major U.S. retailers, including Target, Marshalls, Dollar Tree and others, which is serving as a catalyst for growth and repositioning of retail tenants and space in most of the Company's markets. This typically will result in new opportunities for the Company, but also brings increased competition. We are also focussed on a change we see occurring in our industry with a new and younger generation of consumers whose shopping patterns will be more difficult to predict. As a result, the Company is highly focussed on ensuring the competitive position of its assets in various retail trade areas and continues to closely follow demographics and goods and services shopping trends. The Company's proactive management strategy helps ensure its properties remain attractive to high quality tenants and their customers.

Canada's economy is growing at a relatively moderate pace and uncertainty remains due to ongoing sluggish growth in many of the world's major economies. However, on a relative basis, Canada currently has a healthier economy than the United States and Europe. The ongoing uncertainty with respect to sovereign and consumer debt issues in these regions continues to contribute to the maintenance of a low interest rate environment. Both the equity and long-term debt markets are accessible but sometimes volatile from a price perspective, primarily due to the aforementioned factors external to the Company and the Canadian economy. In this environment the Company will continue to focus on maintaining access to all sources of long-term capital at the lowest possible cost. In particular, the Company is focussed on both extending the term, and staggering the maturity of its debt.

Currently, financing availability in Canada from both financial institutions and the capital markets is robust, particularly for the better credits and larger real estate companies. However, relative to pricing currently sought by vendors of high quality, well-located urban properties, spreads also continue to be very tight. The Company will continue to selectively acquire high quality, well-located properties that add strategic value and/or operating synergies, provided that they will be accretive to FFO over the long term, and that equity and long-term debt capital can be priced and committed to maintain conservative leverage.

With respect to acquisitions of both income-producing and development properties, as well as in its existing portfolio, the Company will continue to focus on the quality, sustainability and growth potential of rental income. Consistent with First Capital Realty's past practices and in the normal course of business, the Company is engaged in discussions, and has various agreements, with respect to possible acquisitions of new properties and dispositions of existing properties in its portfolio. However, there can be no assurance that these discussions or agreements will result in acquisitions or dispositions, or if they do, what the final terms or timing of such acquisitions or dispositions would be. The Company expects to continue current discussions and actively pursue other acquisition, investment and disposition opportunities.

Specifically, Management is focussed on the following five areas to achieve its objectives through into 2012 and into 2013:

- continued focus on proactive asset management that results in higher rent growth;
- selective acquisitions of strategic assets and adjacent sites;
- development, redevelopment and repositioning activities including land use intensification;
- increasing efficiency and productivity of operations; and
- improving the cost of both debt and equity capital.

Through various business and economic cycles, since August 2000 when the current management came on board, the Company has consistently delivered growth in same property net operating income, and in leasing and in occupancy. At the same time, the Company has continued to undertake selective development and redevelopment activities, ultimately improving its ability to generate high-quality cash flow from operations. Management's cautious approach to maintaining liquidity and extending debt maturities has offset some of the improvements in the Company's funds from operations that otherwise would have resulted from the solid operating performance of the Company's property portfolio. Management is committed to the strategy it employs to achieve the Company's long term objectives.

Overall, Management is confident that the quality of the Company's balance sheet and the defensive nature of its assets and operations will continue to serve it well in the current environment.

Guidance

Readers should refer to the Company's 2011 year end press release dated March 8, 2012 as filed on SEDAR at www.sedar.com for a discussion of the Company's 2012 specific guidance.

The purpose of the Company's guidance is to provide readers with Management's view as to the expected financial performance of the Company, using factors that are commonly accepted and viewed as meaningful indicators of financial performance in the real estate industry.

Corporate Responsibility and Sustainability

First Capital Realty builds value by creating and managing high-quality properties with long-term appeal in neighbourhoods and communities that we expect will have a good and growing customer base well into the future. The Company also takes a highly disciplined approach to the development and redevelopment of our properties across Canada. In May 2006, the Company embarked on the path towards sustainability with our commitment to develop all future properties to Leadership in Energy and Environmental Design ("LEED") standards. In 2009, the Company published its first Corporate Sustainability Report identifying five long-term goals. In 2011, the Company published its 2010 Corporate Responsibility and Sustainability ("CRS") Report which complies with the Global Reporting Initiative ("GRI"), an international non-profit organization whose mandate is to establish guidelines for CRS reports. The Company is proud to be Canada's first publicly traded real estate company to issue a GRI-compliant and externally assured CRS report.

On the environmental front, the Company continues to develop its properties to LEED standards. As of December 31, 2011, 22 projects at 16 properties comprising 384,584 square feet of GLA were certified to LEED. Another 66 projects at 44 properties comprising over 1.8 million square feet of GLA are under development, in the process of construction or awaiting LEED certification. Water conservation is another important focus, and a number of initiatives were implemented, including reduced irrigation and audits on water use. Reducing energy consumption is also key, and we have implemented several energy conservation measures, such as retrofitting interior and exterior lighting to more efficient technology. The Company also has two properties under development that will use geothermal energy for heating and cooling. All of these initiatives enhance our environmental performance, and many of them reduce our operating costs, benefitting our tenants and shareholders.

The people at First Capital Realty remain our most important asset, and Management of the Company continues to build a culture that is committed to treating people with respect and providing them with the opportunity to grow their capabilities. This approach has been fundamental to delivering economic success to our investors, tenants, employees and the communities we serve. The Company promotes respect in the workplace because Management believes that it is the right thing to do, because when people feel valued, they care more about their work and contribute immeasurably to strong financial performance.

Most importantly, Management strives to maintain the highest levels of integrity and ethical business practices in all we do. The Company's governance structure, Code of Conduct and Ethics, and all its employee guidelines and policies are aimed at ensuring that all employees remain good corporate citizens focussed on building the long-term value of the Company.

For more information on the Company's Corporate Responsibility and Sustainability, refer to the full report at www.firstcapitalrealty.ca

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board ("AcSB") mandated that all publicly accountable profit-oriented enterprises adopt IFRS, which replaced Canadian GAAP, for interim and annual periods beginning on or after January 1, 2011. Comparative information for 2010 is presented under IFRS, including a balance sheet as at January 1, 2010 (the "transition date").

Adoption of IFRS requires retrospective application as at the transition date. The Company's transition date for Canadian reporting purposes is January 1, 2010, so the fiscal year 2010 results are presented comparatively under IFRS.

Under IFRS 1: First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the Company can elect to apply prospective treatment under certain conditions to certain accounting standards. In addition, IFRS 1 provides for exceptions and optional exemptions for first-time adopters. The cumulative effect of the differences between IFRS and Canadian GAAP as at January 1, 2010 is recognized in retained earnings, in accordance with IFRS 1. As a result of the adoption of IFRS, the Company has recorded a $491 million increase in shareholders' equity as of the transition date.

The key differences between IFRS and Canadian GAAP that affect the preparation of the Company's consolidated financial statements under IFRS, as well as the significant accounting policy choices and exemptions that the Company has applied, are set out in the following paragraphs.

Basis of Valuation of Investment Properties

Previously, under Canadian GAAP, the Company's shopping centre portfolio and development properties were recorded at cost, less accumulated amortization. Under IFRS, an entity can choose to record its investment properties at fair value or cost less accumulated amortization. The Company has elected to use the fair value method, which is discussed further under "Valuation of Investment Properties under IFRS" in the "Business and Operations Review" section of this MD&A.

The fair value of the Company's investment properties was determined to be $602 million and $873 million greater than the Canadian GAAP carrying value at January 1, 2010 and December 31, 2010, respectively. These fair values under IFRS were determined to be $4.1 billion and $4.7 billion at January 1, 2010 and December 31, 2010, respectively. In addition, the Company no longer separately records straight-line rents receivable, deferred costs and intangible assets or liabilities related to investment properties on its balance sheets. The Company no longer records amortization of shopping centres, deferred costs or intangible assets and liabilities on its statements of income.

As a result of the changes in carrying amounts of the Company's assets and liabilities, the Company's deferred income tax liability increased by $111 million at January 1, 2010 and $175 million at December 31, 2010.

Other differences

Other differences between Canadian GAAP and IFRS for which Management has adjusted the financial statements include development cost capitalization and lease accounting. These differences are further described in Note 3 to the consolidated financial statements for the years ended December 31, 2011 and 2010.

Management has also considered differences and exemptions in the areas of asset impairment, employee future benefits, asset retirement obligations, cumulative currency translation adjustments, re-designation of previously recognized financial instruments, share-based payments, borrowing costs, variable interest entities and accounting for interests in joint ventures. These differences do not affect the consolidated balance sheet of the Company as at January 1, 2010.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at December 31 *(thousands of dollars, except per share and other financial data)*	**2011**	2010[1]	2009[1]
Operations Information			
Number of properties [2]	169	162	160
Gross leasable area (square feet)	23,227,000	21,624,000	20,812,000
Pipeline of development and adjacent land (acreage) [3]			
Available for development	206	253	247
Development underway	66	34	48
Total portfolio occupancy	96.2%	96.4%	96.2%
Average rate per occupied square foot	$ 16.81	$ 16.35	$ 15.71
Gross leasable area developed and brought on line for the year (square feet)	514,000	384,000	754,000
Same property net operating income ("NOI") [6] – increase over prior year-to-date	2.3%	3.9%	6.8%
Same property NOI excluding expansion and redevelopment – increase over prior year-to-date	1.9%	2.2%	2.7%
Financial Information			
Investment properties – shopping centres (fair value)	$ 5,811,288	$ 4,734,574	$ 4,113,466
Investment properties – shopping centres (cost)	$ 4,941,393	$ 4,307,436	$ 3,884,563
Investment properties – development land (fair value)	$ 100,845	$ 88,859	$ 64,106
Investment properties – development land (cost)	$ 91,202	$ 94,524	$ 64,067
Total assets	$ 6,111,144	$ 4,988,017	$ 4,285,025
Mortgages, loans and credit facilities	$ 1,584,168	$ 1,318,341	$ 1,354,668
Senior unsecured debentures payable	$ 1,240,594	$ 1,114,031	$ 717,040
Convertible debentures payable	$ 282,328	$ 324,535	$ 329,739
Shareholders' equity	$ 2,421,728	$ 1,832,597	$ 1,586,367
Capitalization and Leverage			
Shares outstanding	178,224,865	163,455,753	153,672,609
Enterprise value [4]	$ 6,215,230	$ 5,252,706	$ 4,507,560
Debt to total assets [5]	46.4%	48.4%	48.3%
Debt to total assets – 5 quarter average	48.0%	49.1%	N/A
Debt to total market capitalization	45.4%	46.0%	45.9%

Year ended December 31 *(thousands of dollars, except per share and other financial data)*	**2011**	2010[1]	2009[1]
Revenues, Income and Cash Flow			
Revenues	$ 534,219	$ 487,495	$ 447,743
Net operating income [6]	$ 340,088	$ 314,015	$ 285,177
Corporate expenses, excluding non-cash compensation			
As a percent of rental revenue	3.5%	3.9%	4.0%
As a percent of total assets	0.30%	0.37%	0.43%
Other gains (losses) and (expenses), net	$ (810)	$ 4,332	$ (1,414)
Increase in value of investment properties, net	$ 466,214	$ 178,078	$ —
Net income attributable to common shareholders	$ 501,622	$ 249,497	$ 41,913
Net income per diluted share attributable to common shareholders	$ 2.75	$ 1.47	$ 0.28
Cash flow from operating activities (before changes in non-cash operating items and expenditures on residential inventory, net)	$ 179,249	$ 164,228	$ 155,220
Dividends			
Regular dividends	$ 136,186	$ 127,768	$ 120,731
Dividend-in-kind (book value) [7]	$ —	$ —	$ 63,525
Regular dividends per common share	$ 0.80	$ 0.80	$ 0.80
Dividend-in-kind per common share (fair value)	$ —	$ —	$ 0.28
Funds from Operations ("FFO") [6]			
FFO	$ 161,302	$ 152,717	$ 151,320
FFO per diluted share	$ 0.96	$ 0.95	$ 1.01
FFO excluding other gains (losses) and (expenses)	$ 162,424	$ 148,408	$ 144,477
FFO per diluted share excluding other gains (losses) and (expenses)	$ 0.96	$ 0.93	$ 0.96
Weighted average diluted shares – FFO	168,631,921	160,030,988	150,190,104
Adjusted Funds from Operations ("AFFO") [6]			
AFFO	$ 171,957	$ 160,578	$ 151,381
AFFO per diluted share	$ 0.91	$ 0.89	$ 0.92
AFFO excluding other gains (losses) and (expenses)	$ 167,369	$ 152,857	$ 143,464
AFFO per diluted share excluding other gains (losses) and (expenses)	$ 0.89	$ 0.85	$ 0.87
Weighted average diluted shares – AFFO	189,131,831	180,916,597	164,695,415
Equity One [7]			
Funds from operations from Equity One (Cdn$)	$ —	$ —	$ 15,009
Dividends from Equity One (Cdn$)	$ —	$ —	$ 12,452
Dividends from Equity One (US$)	$ —	$ —	$ 10,514
Average exchange on dividends (US$ to Cdn$)	$ —	$ —	$ 1.18

[1] Prior period comparative information has been restated, where applicable, for the effects of the adoption of IFRS. See the "Adoption of International Financial Reporting Standards" section of this MD&A for further details. 2009 amounts that were reported on, or calculated based on, the Consolidated Statements of Income and Consolidated Statement of Cash Flows are stated under GAAP.

[2] Includes properties currently under development. The property count has been revised retroactively to January 1, 2010 to combine certain properties that are adjacent to or in proximity to each other such that it is consistent with the manner in which Management operates and analyzes property performance.

[3] Net of co-ownership interests.

[4] Enterprise value is a non-IFRS measure and is calculated as equity market capitalization plus the book value of mortgages and credit facilities, and the principal amount of unsecured debentures and convertible debentures outstanding.

[5] Calculated with all joint ventures proportionately consolidated and cash balances reducing debt.

[6] Net operating income, FFO and AFFO are measures of operating performance that are not defined by IFRS. See "Results of Operations" section of this MD&A.

[7] During 2009, the Company completed a strategic initiative to distribute to shareholders through a dividend-in-kind, the Company's interest in Gazit America Inc., which is the Canadian company that indirectly owned the Company's interest in Equity One, Inc. ("EQY" and "Equity One"). Following this transaction, the Company no longer has any interest in Equity One. (See the discussion in the "Results of Operations – Equity One" section of the Company's Management Discussion and Analysis for the year ended December 31, 2010.)

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

The Company's portfolio is summarized as follows:

December 31	**2011**				2010			
	Number of Properties[1]	**Gross Leasable Area (000's sq. ft.)**	**Percent Occupied**	**% of Annual Minimum Rent**	Number of Properties[1]	Gross Leasable Area (000's sq. ft.)	Percent Occupied	% of Annual Minimum Rent
Central Region								
Ontario	70	10,283	97.3%	45%	64	9,654	98.0%	45%
Eastern Region								
Quebec	49	5,847	95.5%	21%	49	5,486	95.5%	21%
Other provinces	2	91	71.6%	—	2	90	78.8%	1%
Western Region								
Alberta	27	4,877	95.6%	23%	25	4,393	95.1%	22%
British Columbia	21	2,129	95.8%	11%	22	2,001	95.5%	11%
Total	169	23,227	96.2%	100%	162	21,624	96.4%	100%

[1] Includes seven properties under development in 2011 and three in 2010. The property count has been revised retroactively to January 1, 2010 to combine certain properties that are adjacent to or in close proximity to each other such that it is consistent with the manner in which Management operates and analyzes property performance.

As at December 31, 2011, the Company had interests in 169 income-producing properties, which were 96.2% occupied with a total GLA of 23,227,000 square feet. This compares to 96.4% occupied and 21,624,000 square feet at December 31, 2010. The occupancy in the portfolio is discussed in more detail under "Leasing and Occupancy" in this section of the MD&A. The average size of the shopping centres is approximately 137,000 square feet, with sizes ranging from 20,000 to over 500,000 square feet.

The Company's investments in its shopping centre acquisition, development and portfolio improvement activities is summarized below:

Investment Properties – Shopping Centres

	2011		2010	
(millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Balance at beginning of year	$ 4,735	$ 4,307	$ 4,113	$ 3,885
Acquisitions				
Income-producing properties	326	326	189	189
Additional space adjacent to existing properties	86	86	38	38
Additional interests in existing properties	—	—	33	33
Additional land parcels adjacent to existing properties	1	1	17	17
Development activities and portfolio improvements	215	215	142	142
Reclassifications from development land	35	44	13	18
Reclassifications to residential development inventories	(3)	(2)	—	—
Fair value increase	459	—	189	—
Dispositions	(53)	(35)	(12)	(12)
Other changes	10	(1)	13	(3)
Balance at end of year	$ 5,811	$ 4,941	$ 4,735	$ 4,307

Investment Properties – Development Land

	2011		2010	
(millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Balance at beginning of year	$ 89	$ 95	$ 64	$ 64
Acquisitions	30	30	40	40
Development activities and portfolio improvements	12	12	9	9
Dispositions	(2)	(2)	—	—
Reclassifications to shopping centres	(35)	(44)	(13)	(18)
Fair value increase (decrease)	7	—	(11)	—
Balance at end of year	$ 101	$ 91	$ 89	$ 95

Residential Development Inventory

	2011	2010
(millions of dollars)	**Cost**	Cost
Balance at beginning of year	$ 17	$ 1
Acquisitions	—	6
Expenditures	17	10
Reclassifications from shopping centres	3	—
Balance at end of year	$ 37	$ 17

Valuation of Investment Properties Under IFRS

The Company continues to see increases in the fair value of its investment properties as the average stabilized capitalization rates declined from 6.97% to 6.34% during the year ended December 31, 2011. The fair value of the Company's investment properties increased by $466 million (shopping centres – $459 million; development land – $7 million) from December 31, 2010 to December 31, 2011.

The values of shopping centres and associated capitalization rates and yields by region are as follows for the years ended December 31, 2011 and 2010:

December 31, 2011

		Capitalization Rate					Weighted Average Yield		
(millions of dollars, except other data)	**Number of Properties**	**Weighted Average**	**Median**	**Range**	**Fair Value**	**Revaluation Gains[1]**	**Actual NOI to Fair Value Yields[2]**	**Run Rate to Fair Value Yield[3]**	**Run Rate to Cost Yield[4]**
Central Region	70	6.27%	6.25%	5.53% – 9.50%	$ 2,713	$ 190	5.86%	6.12%	7.09%
Eastern Region	51	6.80%	6.75%	6.00% – 10.00%	1,098	52	6.29%	6.53%	7.50%
Western Region	48	6.19%	6.25%	5.00% – 7.50%	2,000	217	5.68%	5.92%	7.23%
	169	6.34%	6.25%	5.00% – 10.00%	$ 5,811	$ 459	5.87%	6.12%	7.21%

December 31, 2010

(millions of dollars, except other data)	Number of Properties	Capitalization Rate: Weighted Average	Capitalization Rate: Median	Capitalization Rate: Range	Fair Value	Revaluation Gains[1]	Weighted Average Yield: Actual NOI to Fair Value Yields[2]	Weighted Average Yield: Run Rate to Fair Value Yield[3]	Weighted Average Yield: Run Rate to Cost Yield[4]
Central Region	64	6.83%	6.75%	6.00%–9.50%	$ 2,209	$ 134	6.51%	6.65%	7.40%
Eastern Region	51	7.39%	7.50%	6.50%–10.00%	915	10	6.90%	7.05%	7.80%
Western Region	47	6.92%	7.00%	6.25%–7.50%	1,611	45	6.54%	6.61%	7.27%
	162	6.97%	7.00%	6.00%–10.00%	$ 4,735	$ 189	6.60%	6.72%	7.43%

[1] As reported in the consolidated statements of income.

[2] Calculated as normalized NOI divided by the fair value of investment property. Normalized NOI is calculated on the basis that all acquisitions and dispositions occurred at the beginning of the reporting period (assuming a run rate), and does not include the seven development projects discussed in the "2011 Development and Redevelopment Activities" section of the MD&A. Run rate is an annualized NOI for a property based upon the existing tenants in place and current operating cost profile for the property.

[3] Calculated as run rate NOI divided by the fair value of investment property.

[4] Calculated as run rate NOI divided by cost of investment property.

The sensitivity of the fair values of shopping centres to capitalization rates as at December 31, 2011 is set out in the table below:

Capitalization rate (decrease) increase	Resulting increase (decrease) in value of shopping centres ($ millions)
(0.75%)	$ 766
(0.50%)	$ 489
(0.25%)	$ 234
0.25%	$ (217)
0.50%	$ (418)
0.75%	$ (604)

The determination of fair values requires the appraisers and Management to make estimates and assumptions that affect the values presented, such that actual values in a sales transaction may differ from those presented.

The fair value of investment properties is determined each period using both internal and independent, external appraisals performed by nationally-recognized appraisal firms. Management considers property size, levels of redevelopment and leasing activity, local market conditions, geography and other factors when deciding which properties are appraised externally. Each property whose cost exceeds $50 million is externally appraised at least once every six quarters; all other properties are externally appraised at least once every three years.

All appraisals comply with the International Valuations Standard and with the requirements of IAS 40 – Investment Property; therefore, no estimates are made for any potential portfolio premiums or for value attributable to the Company's management platform. External appraisals conform to applicable professional standards.

Shopping Centres Valuation Method

Shopping centres are appraised primarily using the income approach, since purchasers typically focus on expected income. External appraisers place reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition).

Properties that are not development or redevelopment properties are valued based on stabilized cash flows from existing tenants with the property in its existing state. Properties undergoing development, redevelopment or expansion are valued using the stabilized cash flows expected upon completion, with a deduction for costs to complete the project; capitalization rates are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land. Internal appraisals use the direct capitalization method with capitalization rates based on current market data.

During 2011, approximately 45% (year ended December 31, 2010 – approximately 39%, year ended December 31, 2009 – approximately 81%) of the total fair value of shopping centres was determined through external appraisals.

Development Land Valuation Method

The primary method of appraisal for development land was the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets to estimate value per acre. Such values are applied to the Company's properties after adjusting for factors specific to the site, including its zoning, servicing and location. At December 31, 2011, approximately 23% of the total fair value of development land was determined through the external appraisals.

2011 Acquisitions

Total acquisitions of investment properties in 2011 amounted to $444 million, adding 1.7 million square feet of gross leasable area and 6.6 acres of development land to the portfolio.

Shopping Centres – Income-Producing Properties

In 2011, the Company invested $326.4 million in the acquisition of seven income-producing shopping centres, comprising 1,358,500 square feet. These acquisitions are in the Company's target urban markets and demonstrate the Company's continuing focus on increasing its presence in these urban markets. The acquisitions, each of which was acquired from a different vendor, are summarized in the table below:

Property Name	City	Province	Quarter Acquired	New Trade Area	Supermarket-Anchored	Drugstore-Anchored	Gross Leasable Area (square feet)	Acquisition Cost (in millions)
Central Region								
Tomken Plaza	Mississauga	ON	Q1	✔	✔	✔	88,500	$ 22.0
Rona Stockyards	Toronto	ON	Q3	✔	—	—	84,000	18.7
Hazelton Lanes	Toronto	ON	Q4	✔	✔	—	213,500	117.9
Eastern Region								
Place Portobello	Brossard	QC	Q1	—	✔	✔	505,000	73.6
Western Region								
Meadowlark [(1)]	Edmonton	AB	Q3	—	✔	✔	305,000	42.1
Longstreet	Edmonton	AB	Q3	✔	—	—	44,500	17.0
Mount Royal Village	Calgary	AB	Q4	✔	—	✔	118,000	35.1
Total							1,358,500	$ 326.4

[(1)] The property was acquired on a 50% co-ownership basis. The acquisition cost represents the Company's proportionate participation in this property and the square footage is at 100%.

Shopping Centres – Additional Space and Adjacent Land Parcels

In 2011, the Company acquired 15 properties adjacent to existing shopping centres adding 316,000 square feet of gross leasable area and 3.56 acres adjacent to existing properties. Total expenditures on these additional interests amount to $87.3 million. These acquisitions are set out in the table below:

Property Name	City	Province	Quarter Acquired	Gross Leasable Area (square feet)	Acreage	Acquisition Cost (in millions)
Central Region						
Queensway	Toronto	ON	Q2	11,000	—	$ 4.5
Queensway	Toronto	ON	Q2	2,000	—	1.8
Fairway Plaza (685 Fairway Road)	Kitchener	ON	Q2	27,000	—	7.6
Shops at King Liberty (116 Atlantic)	Toronto	ON	Q4	4,000	—	1.3
Eastern Region						
Queen Mary (5150-5164 Queen Mary)	Montreal	QC	Q1	35,000	—	6.5
Carrefour du Plateau Grives	Gatineau	QC	Q2	—	1.74	0.5
Centre Kirkland (Place Hymus)	Kirkland	QC	Q3	—	0.46	0.7
Centre St. Hubert	Longueuil	QC	Q4	—	1.00	1.0
Western Region						
Macleod Plaza (9250 MacLeod Trail)	Calgary	AB	Q3	124,000	—	35.2
Langford Centre (Langford Plaza)	Langford	BC	Q1	33,000	—	6.4
Coronation Mall (Robertson Street)	Duncan	BC	Q1	—	0.36	0.1
Langford Centre (Millstream Centre)	Langford	BC	Q2	19,000	—	3.7
Langford Centre (Goldstream Station Mall)	Langford	BC	Q3	10,000	—	2.4
Semiahmoo Shopping Centre (1706-1717 152nd Street)	Surrey	BC	Q3	7,000	—	2.6
Tuscany Village (McKenzie Professional Centre)	Victoria	BC	Q4	44,000	—	13.0
Total				316,000	3.56	$ 87.3

Development Lands

In 2011, the Company through its Main & Main Developments joint venture invested $29.3 million in the acquisition of six assembly projects, comprising three acres of land in Toronto, Ontario for future development of retail and mixed use space. See “Development and Redevelopment Activities” section of this MD&A for further discussion.

2011 Dispositions

The Company completed the sale of the 103,000 square foot West Lethbridge Towne Centre in Lethbridge, Alberta. The sale price of the property was $42.6 million, which was satisfied by a combination of cash and the assumption of the mortgage payable aggregating $8 million.

The Company also completed the sale of the 30,000 square foot Terminal Park Shopping Centre in Nanaimo, British Columbia for $10.2 million, which was satisfied in cash.

Impact of Acquisitions and Dispositions on Continuing Operations

Management will continue to be selective and take a highly disciplined approach to increasing the size and quality of the Company's property portfolio, seeking acquisitions that are both operationally, financially and qualitatively accretive over the long term. Management looks for benefits from economies of scale and operating synergies in order to strengthen the Company's competitive position in its target urban markets. As well, Management seeks to enhance the tenant and geographic diversification of the portfolio.

The 2011 acquisitions are in line with the Company's business strategy based on their locations, tenancies and redevelopment, repositioning or expansion opportunities.

The NOI effect of properties acquired and sold, based on the run rate, for the years ended December 31, 2011 and 2010 is set out in the table below:

	Run rate NOI of properties acquired		Run rate NOI of properties sold	
(thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Central Region	$ 7,466	$ 5,904	$ —	$ —
Eastern Region	5,148	630	—	—
Western Region	8,717	11,002	2,743	910
Total	$ 21,331	$ 17,536	$ 2,743	$ 910

Assets Held For Sale

Included in investment properties at December 31, 2011 are four investment properties with an approximate value of $96.7 million that meet the financial reporting criteria to be classified as held for sale. These assets are considered to not be aligned with the Company's core strategies. Disposition of these investment properties will provide the Company the opportunity to redeploy capital to uses more aligned with the Company's urban focus. Mortgages payable relating to these investment properties aggregated $22.3 million with a weighted average cash interest rate of 6.28% and mature between 2012 and 2019. Two of these investment properties with an aggregate fair value of $31.2 million and mortgages payable of $6.2 million were disposed of subsequent to year end.

Acquisitions and Dispositions subsequent to December 31, 2011

On February 2, 2012, the Company acquired 1450 Merivale Road, a 0.55 acre property with over 8,800 square feet of vacant space in Ottawa, Ontario. The property is just east of the Company's 134,000 square foot Loblaws Plaza. The total purchase price of approximately $2.4 million including closing costs was satisfied in cash.

On February 6, 2012, the Company acquired The Devenish, a 56,000 square foot, mixed use property including a 40,000 square foot retail/office building, a 13,000 square foot apartment building, two houses and 0.37 acres of vacant land. The Devenish is located just west of Mount Royal Village, a 118,000 square foot mixed-use office and retail shopping centre acquired in December 2011 and located in the heart of Uptown 17th Avenue SW, Calgary's premier urban retail district. The purchase price of approximately $22.1 million including closing costs was satisfied in cash.

On February 1, 2012, the Company sold Woodgrove Crossing, a 59,000 square foot shopping centre located near the intersection of Island Highway and Nanaimo Parkway in Nanaimo, British Columbia, for $18.6 million in cash.

On February 14, 2012, the Company sold the Woolridge Building, a 38,000 square foot store located in Coquitlam, British Columbia, for $12.6 million. Proceeds, net of mortgage financing, were $6.3 million.

2010 Acquisitions

Total acquisitions of investment properties in 2010 amounted to $315.1 million, adding 834,000 million square feet of gross leasable area and 14.5 acres of development land to the portfolio.

Shopping Centres – Income-Producing Properties

In 2010, the Company expanded its portfolio through various acquisitions as set forth below:

Property Name	City	Province	Quarter Acquired	New Trade Area	Supermarket-Anchored	Drugstore-Anchored	Gross Leasable Area (square feet)	Acquisition Cost (in millions)
Central Region								
Parkway Mall	Toronto	ON	Q4	—	✔	✔	257,000	$ 61.8
Western Region								
Newport Village	Calgary	AB	Q2	—	—	—	42,000	15.1
Tuscany Village	Victoria	BC	Q1	—	✔	✔	66,000	26.9
Semiahmoo Shopping Centre	Surrey	BC	Q2	✔	✔	✔	293,000	84.7
Total							658,000	$ 188.5

During the third quarter of 2010 the Company sold a shopping centre in Lethbridge, Alberta for gross proceeds of $12.5 million including the assumption of a mortgage of $7.6 million.

In 2010, the Company acquired the remaining interests in existing properties set out in the table below.

Total development and redevelopment of 513,500 square feet was completed in 2011 compared with 384,000 square feet developed in 2010. The developed space, including redevelopment, was 88% occupied when transferred to income-producing shopping centres at an average rental rate of $25.22 per square foot. These successfully completed development projects illustrate the potential future value of investments in ongoing development initiatives that are not yet generating income, but are expected to contribute to the growth of the Company.

The Company has a joint venture with a Toronto-based condominium developer to develop its residential density project at Shops at King Liberty in Toronto. The Company has a 50% interest in the joint venture and consolidates the activities of the joint venture in its financial results. The project includes two phases: Fuzion and KingsClub. Fuzion consists of 264 residential units in a condominium tower and approximately 10,000 square feet of retail. 95% of the residential units are pre-sold and the project is expected to be complete in the first quarter of 2013. The Company has the option to acquire the retail and related parking from the joint venture. The second phase, KingsClub, was launched to the market in the fourth quarter of 2011. There will be approximately 130,000 square feet of retail in this phase and more than 650 residential units for sale once entitlements are completed. The Company has sold 140 units in the first phase of KingsClub.

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately $181.3 million including $38.0 million related to the Fuzion development (at 100%), the majority of which will be incurred in 2012. In the management of its development and expansion program, the Company utilizes dedicated internal professional staff. Direct and incremental costs of development, including applicable salaries and other direct costs of internal staff, are capitalized to the cost of the property under development.

A second residential development is underway at Broadmoor Shopping Centre in Richmond, British Columbia. The Company is constructing 68 luxury residential rental units, and the project is expected to be complete in the third quarter of 2012.

The Company has entered into a joint venture ("Main and Main Developments") with a private developer (who is currently a partner in other joint ventures with the Company) to assemble urban sites within the City of Toronto and to develop and operate them for retail and/or mixed use. The Company has a 67% equity interest and consolidates the activities of the joint venture in its financial statements. The joint venture agreement contemplates initially up to $100 million of acquisitions and development investment, including senior and mezzanine debt financing which the Company is committed to provide to the joint venture. During 2011, the joint venture completed the acquisition of six assembly projects for $29.3 million and has additional acquisitions underway.

At December 31, 2011, three land sites included in properties held for development are in the planning stage of development. In addition, the Company is actively planning future redevelopment and/or expansion at 24 additional shopping centres.

Highlights of the Company's current development projects underway include:

(thousands of dollars, except for other data)			Square Feet	Acreage	Target	Total	Investment at	Estimated
	Major	Completed	Under	Under	Completion	Est. Cost	Cost as of	Costs to
Property	Tenants	Square Feet	Development	Development	Date	incl. Land[1]	Dec 31, 2011[1]	Complete[1]
Development Projects								
Leaside Village[2] Toronto, ON	Longo's	—	123,695	8.64	Q4, 2012	$ 43,607	$ 22,218	$ 21,389
Clairfield Commons[2] (Pergola Commons) Guelph, ON	Royal Bank of Canada GoodLife Fitness, Cineplex	2,903	141,540	19.43	Q1, 2013	45,754	29,121	16,633
5051-5061 Yonge St Toronto, ON	Michael's	—	37,420	0.7	Q4, 2012	28,827	19,995	8,832
Carrefour St. David East[2] [4] Beauport, QC	SAQ, CIBC	10,486	24,740	2.93	Q2, 2013	10,011	4,160	5,851
Carrefour St. David West[2] Beauport, QC	National Bank, Uniprix	29,113	9,468	0.81	Q1, 2012	2,777	2,147	630
Carrefour Charlemagne[2] Charlemagne, QC	Metro	37,275	13,200	1.52	Q2, 2013	4,321	3,130	1,191
Carrefour du Plateau Grives Gatineau, QC	IGA	29,449	74,388	7.38	Q2, 2013	16,224	7,883	8,341
Carrefour du Versant, West[2] Gatineau, QC	Dollarama	8,551	17,100	2.45	Q3, 2012	5,531	3,704	1,827
Properties near completion		—	21,086	1.60		13,185	12,606	579
Less: Space turned over to tenants		79,333	(79,333)	(9.13)		(17,918)	(17,918)	
Total Development Projects		197,110	383,304	36.33		$152,319	$ 87,046	$ 65,273

(thousands of dollars, except for other data)		Square Feet	Acreage	Target	Total	Investment at	Estimated
	Major	Under	Under	Completion	Est. Cost	Cost as of	Costs to
Property	Tenants	Development	Development	Date	incl. Land[1]	Dec 31, 2011[1]	Complete[1]
Appleby Village[2] Burlington, ON	LCBO, Pharma Plus, The Beer Store	58,956	5.89	Q1, 2012	$ 16,665	$ 12,757	$ 3,908
Shops at King Liberty[2] (51 Hanna) Toronto, ON	Royal Bank of Canada	22,827	0.29	Q2, 2012	12,000	6,370	5,630
Cedarbrae Mall[2] (629 Markham) Toronto, ON	Royal Bank of Canada	5,769	0.66	Q2, 2012	3,000	2,005	995
Brooklin Towne Centre[2] Whitby, ON	The Beer Store	6,568	1.44	Q1, 2012	2,536	1,087	1,449
Thickson Place[2] Whitby, ON	Starbucks, LCBO	11,710	1.24	Q3, 2012	5,014	809	4,205
Hunt Club Place[2][3][4] Ottawa, ON	T&T Supermarket	37,609	3.63	Q4, 2012	3,798	2,732	1,066
Rutherford Marketplace[2][4] Toronto, ON	LA Fitness	51,130	2.25	Q3, 2012	15,674	9,333	6,341
Carrefour St-Hubert St-Hubert, QC	Super C	11,000	1.06	Q1, 2012	3,425	2,317	1,108
Carrefour Soumande Quebec City, QC	Bouclair, Super C	3,515	6.81	Q2, 2013	6,502	149	6,353
Plaza Beaconsfield Beaconsfield, QC	McDonalds, TD Bank	5,200	0.50	Q4, 2012	4,257	827	3,430
Place Nelligan, Gatineau, QC	IGA	16,827	1.85	Q3, 2013	4,772	1,416	3,356
Place Kirkland[2] Kirkland, QC	SAQ, Starbucks	7,746	0.36	Q1, 2012	2,479	1,587	892
Cole Harbour, Cole Harbour, NS	Shoppers Drug Mart	24,233	4.74	Q2, 2013	9,209	4,246	4,963
Sherwood Centre[2] (911 Ash Street) Sherwood Park, AB	Starbucks	5,883	0.68	Q1, 2012	3,296	2,799	497
McKenzie Towne Centre[2] Calgary, AB	Servus Credit Union, Dental Clinic	6,946	1.91	Q1, 2012	4,180	1,745	2,435
Deer Valley Shopping Centre[2] Calgary, AB	Royal Bank of Canada, Liquor Depot	56,438	1.30	Q4, 2012	10,990	1,694	9,295
Broadmoor Shopping Centre[2] & Residential, Richmond, BC	Shoppers Drug Mart, Royal Bank of Canada, Coast Capital	88,836	2.04	Q2, 2012	37,623	27,130	10,493
Coronation Mall[2] Duncan, BC	Shoppers Drug Mart, Snap Fitness	4,800	0.11	Q2, 2012	1,340	123	1,217
Port Place[2] Nanaimo, BC	CIBC, TD Canada Trust, B.C. Liquor Store	45,226	1.04	Q4, 2012	16,522	9,369	7,153
Properties near completion		31,235	2.08		11,262	7,954	3,309
Less: Partner's Interest		(25,074)	(2.42)				
Less: Space turned over to tenants for completion		(134,101)	(7.91)		(37,940)	(37,940)	–
Total Redevelopment and Expansion Projects		343,279	29.55		$136,604	$ 58,509	$ 78,095

(thousands of dollars, except for other data) Property	Square Feet Under Development	Acreage Under Development	Target Completion Date	Total Est. Cost incl. Land[1]	Investment at Cost as of Dec 31, 2011[1]	Estimated Costs to Complete[1]
King Liberty Village (Fuzion)[5] Toronto, ON	585,205	0.65	Q1, 2013	$ 59,911	$ 21,961	$ 37,950
Total Additional Development Properties	585,205	0.65		$ 59,911	$ 21,961	$ 37,950

(1) Excludes capitalized carrying costs until completion and includes an allocation of land cost. Costs for completed phases are included in income-producing shopping centres.
(2) Constructed in accordance with LEED certification standards.
(3) 33% interest owned by First Capital Realty. Costs include the Company's percentage only.
(4) Information included is for the current phase only.
(5) The development includes 10,000 square feet of retail space and 264 residential condominium units.

At December 31, 2011, the fair value of the development projects (at 100%) is $187.1 million and includes revaluation gains of $19.7 million. These properties provided NOI during the year of $4.8 million. The year-end run rate NOI at December 31, 2011 of these development projects is $6.2 million.

Of the 727,000 square feet that is currently under construction or development (excluding Fuzion), 412,500 square feet is subject to committed leases at a weighted average rate of $25.20 per square foot.

A summary of investment properties at December 31, 2011, by component, is as follows:

	Number of Sites/ Properties[2]	Acreage[1]	Developable Square Feet[1][4] (in thousands)	Approved Developable Square Feet[1][3] (in thousands)	Cost (in millions)	Fair Value (in millions)
Shopping centres – income producing	169	1,972	23,227		$ 4,651	
Shopping centres with development activities						
Development projects	7	36	383	383	87	
Redevelopment and Expansion	19	30	343	343	59	
Land parcels adjacent to/part of existing properties	32	100	962	526	98	
Land parcels adjacent to/part of existing properties available for expansion	6	5	56	52	—	
Property held for redevelopment	1	1	—	38	38	
Other development related costs	—	—	—	—	8	
Total shopping centres with development or potential	65	172	1,744	1,342	290	
Total shopping centres					$ 4,941	$ 5,811
Development land	18	100	2,155	937	91	101
Total					$ 5,032	$ 5,912

(1) Acreage and square feet are net of co-ownership interests for shopping centres with development activities and development land.
(2) Property counts of shopping centres undergoing development activities are included in the total property count for income-producing shopping-centres of 169.
(3) Represents municipally zoned developable square feet.
(4) Includes both municipally approved developable square feet and square feet the Company expects to be approved.

2010 Development and Redevelopment Activities

Development of 272,400 square feet was brought on line in 2010 with 233,900 square feet leased at an average rate of $25.22 per square foot. The Company also reopened 111,300 square feet of redeveloped space at an average rate of $13.45 per square foot.

Property Name	City	Province	Square Feet[1]	Major Tenants
Central Region				
Rutherford Marketplace [2]	Vaughan	ON	35,300	LCBO, Various CRU
Hunt Club Place [2] [3]	Ottawa	ON	21,600	TD Canada Trust, Various CRU
Derry Heights Plaza [2]	Milton	ON	17,900	Sunlife, Various CRU
Appleby Village [2]	Burlington	ON	28,100	Various CRU
Brooklin Towne Centre [2]	Whitby	ON	11,000	Various CRU
Fairway Plaza [2]	Kitchener	ON	10,000	LCBO
Olde Oakville [2]	Oakville	ON	8,900	Various CRU
Fairview Mall	St. Catharines	ON	6,200	Swiss Chalet
Loblaws Plaza [2]	Ottawa	ON	19,800	Royal Bank of Canada GoodLife Fitness, Other CRU
Eastern Region				
Carrefour Charlemagne [2]	Charlemagne	QC	37,300	Metro
Centre Commercial Beaconsfield [2]	Beaconsfield	QC	19,200	Gold's Gym
Plaza Actuel	Longueuil	QC	18,500	Bell, Energie Cardio
Western Region				
Dickson Trail Crossing [2]	Airdrie	AB	14,800	Various CRU
Meadowbrook	Edmonton	AB	5,000	Shoppers Drug Mart (expansion)
The Village Market	Sherwood Park	AB	10,300	Various CRU
Towerlane Centre	Airdire	AB	17,100	Sears
South Park Centre	Edmonton	AB	28,200	JYSK, Other CRU
Westmount Centre	Edmonton	AB	8,000	Shoppers Drug Mart
Port Place Shopping Centre	Nanaimo	BC	9,600	Various CRU
Other space – various properties			56,900	
			383,700	

[1] Includes new space in development projects and redevelopment and expansion projects.
[2] Constructed in accordance with Leadership in Energy and Environmental Design (LEED) Certification Standards.
[3] 33% interest owned by the Company.

Revenue sustaining and enhancing expenditures on investment properties are as follows:

(thousands of Canadian dollars)	**2011**	2010
Revenue sustaining	$ 17,240	$ 15,747
Revenue enhancing	25,038	18,150
Expenditures recoverable from tenants	4,796	3,449
Other items and adjustments	1,952	1,571
Development expenditures	178,359	111,726
Total	$ 227,385	$ 150,643

Revenue sustaining capital expenditures are expenditures required for maintaining shopping centre infrastructure and revenues from current leases. Typically, these expenditures range from $0.68 to $0.77 per square foot per annum over a longer term with a three-year weighted average of $0.74 per square foot, for the three years ended December 31, 2011. Actual revenue sustaining expenditures per square foot over the past three years are as follows: 2009 – $0.68; 2010 – $0.74 and 2011 – $0.77. Over the past three years the Company increased its expenditures on roof and parking lot replacements at several of its centres, which will reduce its ongoing maintenance expenditures at these centres going forward.

Revenue enhancing and repositioning expenditures are those expenditures which increase the revenue generating ability of the Company's shopping centres. Management considers the potential effects on occupancy and future rents per square foot, development activities, the time leasable space has been vacant and other factors when assessing whether an expenditure is revenue enhancing or sustaining.

2011 Leasing and Occupancy

Changes in the Company's gross leasable area and occupancy are set out below:

For year ended December 31, 2011	Total Square Feet (thousands)	Occupied Square Feet (thousands)	%	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	No. of Leases	Rate per Occupied Square Foot
December 31, 2010	**21,624**	**20,852**	**96.4%**	**126**	**0.6%**	**646**	**3.0%**		**$ 16.35**
Tenant openings	—	666		—		(666)		238	19.43[(1)]
Tenant closures	—	(694)		—		694		(231)	(18.62)[(1)]
Closures for redevelopment	—	(328)		328		—		(69)	(11.16)
Developments – coming on line	471	411		—		60		118	25.63
Redevelopments – coming on line	—	43		(43)		—		13	21.39
Demolitions	(334)	—		(330)		(4)		—	—
Reclassification	(69)	(71)		14		(12)		—	—
Total portfolio before dispositions and acquisitions	21,692	20,879	96.3%	95	0.4%	718	3.3%		16.86
Dispositions	(139)	(135)		—		(4)		(36)	(19.88)
Acquisitions	1,674	1,607		32		35		475	16.34
December 31, 2011	**23,227**	**22,351**	**96.2%**	**127**	**0.6%**	**749**	**3.2%**		**$ 16.81**
Renewals		1,402		—		—		325	$ 15.73
Renewals – expired		(1,402)		—		—		(325)	$ (14.31)
Net increase per square foot from renewals									$ 1.42
% Increase on renewal of expiring rents									9.9%
% Increase in rate per square foot – openings versus all closures									22.3%

(1) Excluding temporary tenant openings and closings at a major redevelopment site totalling 88,000 square feet. Opening and closing rates per square foot would be $16.99 and $16.89 including these temporary tenants.

For the year ended December 31, 2011, gross new leasing totalled 1,120,000 square feet including development and redevelopment space coming on line. This gross new leasing will generate additional annual minimum rent of approximately $22.7 million. The Company achieved a 9.9% increase on 1,402,000 square feet of renewal leases over the expiring lease rates.

The weighted average rate per occupied square foot increased to $16.86 at December 31, 2011 before acquisitions and dispositions from $16.35 at December 31, 2010 as a result of leasing and development activity. Management believes that the weighted average rental rate per square foot for the portfolio would be in the $21 to $23 range, if the portfolio were at market. The Company continues to seek well located properties with below market rent for future value creation activities.

Portfolio occupancy at December 31, 2011 of 96.2% compares to 96.4% at December 31, 2010. Included in the vacant amount is 127,000 square feet of space under redevelopment providing potential for future income growth.

In September 2011 the Company entered into leasing transactions with respect to 17 of the Company's 19 existing Zellers leases. A total of 14 leases were assigned to Wal-Mart Canada, which brought the total to 18 for the number of Wal-Mart stores in the Company's shopping centres. Two Zellers leases were assigned to Target Canada and the Company has secured national tenants for a significant portion of the premises for one more Zellers lease.

Pursuant to an order of the Ontario Superior Court of Justice dated May 3, 2011, Grant Thornton Limited was appointed as Receiver of the assets, undertakings and properties of Blockbuster Canada Co. ("Blockbuster"). The Court Order provided the Receiver with the authority to operate Blockbuster's business and assess the various options available for Blockbuster and its stakeholders. On October 12, 2011, the receiver made an assignment in bankruptcy on behalf of Blockbuster Canada. Twenty-four spaces closed in 2011, representing 117,000 square feet and $2.5 million annual minimum rent. Of these closures, the Company has received firm commitments for leases at thirteen locations, representing approximately 48,000 square feet and annual minimum rent of $1.5 million. Of these, four tenants have taken occupancy as of December 31, 2011. In addition, the Company is in various stages of negotiations with twenty tenants representing approximately 60,000 square feet and $1.8 million annual minimum rent.

2010 Leasing and Occupancy

Changes in the Company's gross leasable area and occupancy are set out below:

For year ended December 31, 2011	Total Square Feet (thousands)	Occupied Square Feet (thousands)	%	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	No. of Leases	Rate per Occupied Square Foot
December 31, 2009	**20,812**	**20,033**	**96.2%**	**143**	**0.7%**	**636**	**3.1%**		**$ 15.71**
Tenant openings	—	441		—		(441)		191	19.34
Tenant closures	—	(409)		—		409		(179)	(17.00)
Closures for redevelopment	—	(148)		148		—		(65)	(13.25)
Developments – coming on line	272	234		—		38		76	25.22
Redevelopments – coming on line	—	112		(112)		—		15	13.45
Demolitions	(154)	(5)		(112)		(37)		57	—
Reclassification	(89)	(151)		59		3		—	—
Total portfolio before dispositions and acquisitions	20,841	20,107	96.5%	126	0.6%	608	2.9%		16.23
Dispositions	(54)	(54)		—		—		6	(17.40)
Acquisitions	837	799		—		38		251	19.47
December 31, 2010	**21,624**	**20,852**	**96.4%**	**126**	**0.6%**	**646**	**3.0%**		**$ 16.35**
Renewals	—	858		—		—		305	$ 19.94
Renewals – expired	—	(858)		—		—		(305)	(17.92)
Net increase per square foot from renewals									$ 2.02
% Increase on renewal of expiring rents									11.3%
% Increase in rate per square foot – openings versus all closures									16.1%

For the year ended December 31, 2010, gross new leasing including development and redevelopment space totalled 787,000 square feet. Renewal leasing totalled 858,000 square feet with an 11.3% increase over expiring lease rates.

The weighted average rate per occupied square foot at December 31, 2010 increased to $16.35. This compares to a weighted average rate of $15.71 per square foot at December 31, 2009.

Portfolio occupancy at December 31, 2010 of 96.4% increased from 96.2% at December 31, 2009. Included in the vacant amount is 126,000 square feet of space under redevelopment providing potential for future income growth.

Average rental rate per occupied square foot for tenant openings, development and redevelopment coming on line, and renewals during the year ended December 31 by region are as follows:

(per occupied square foot)	Central Region	Eastern Region	Western Region	Total
2011	$ 18.63	$ 12.11	$ 23.88	$ 17.77
2010	$ 23.86	$ 13.95	$ 22.50	$ 20.09

Average estimated operating cost recoveries and realty tax recoveries during the year ended December 31 by region are as follows:

(per occupied square foot)	Central Region	Eastern Region	Western Region	Total
2011	$ 8.38	$ 6.60	$ 7.33	$ 7.58
2010	$ 7.89	$ 6.39	$ 6.95	$ 7.19

Top Forty Tenants

At December 31, 2011, 56.0% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2010 – 57.3%). 82.3% of those rents in the top 40 are from tenants who have investment grade credit ratings and who represent many of Canada's leading supermarket operators, drugstore chains, discount retailers, banks and other familiar shopping destinations. Furthermore, 46.1% (December 31, 2010 – 46.9%) of the Company's total annualized minimum rents came from tenants with investment grade credit ratings.

	Tenant	Number of Stores	Square Feet (in thousands)	Percent of Total Gross Leasable Area	Percent of Total Annualized Minimum Rent	DBRS Credit Rating	S&P[1] Credit Rating	Moody's Credit Rating
1	Sobeys	52	1,801	7.8%	6.7%	BBB	BBB-	
2	Shoppers Drug Mart	69	1,024	4.4%	6.5%	A (LOW)	BBB+	Ba1
3	Loblaw Companies Limited	30	1,559	6.7%	4.8%	BBB	BBB	
4	Metro	30	1,169	5.0%	3.9%	BBB	BBB	
5	Wal-Mart	18	1,768	7.6%	3.3%	AA	AA	Aa2
6	Canadian Tire	27	866	3.7%	3.2%	BBB (HIGH)	BBB+	
7	TD Canada Trust	43	231	1.0%	2.0%	AA	AA-	Aaa
8	Royal Bank	43	241	1.0%	1.9%	AA	AA-	Aa1
9	RONA	4	421	1.8%	1.5%	BBB (LOW)	BBB-	
10	CIBC	33	182	0.8%	1.4%	AA	A+	Aa2
Sub-total		349	9,262	39.8%	35.2%			
11	LCBO	21	199	0.9%	1.3%	AA (LOW)	AA-	Aa1
12	Staples	14	307	1.3%	1.2%		BBB	Baa2
13	Dollarama	31	293	1.3%	1.1%			Ba2
14	Canada Safeway	7	343	1.5%	1.1%	BBB	BBB	
15	London Drugs	9	236	1.0%	1.1%			
16	Pharma Plus	19	156	0.7%	1.0%			
17	Bank Of Nova Scotia	22	118	0.5%	0.9%	AA	AA-	Aa1
18	Bank Of Montreal	23	109	0.5%	0.9%	AA	A+	Aa2
19	Goodlife Fitness Club	10	226	1.0%	0.9%			
20	Cara Operations	34	108	0.5%	0.8%	B	BB-	
21	Zellers/Home Outfitters	5	291	1.3%	0.8%			
22	Tim Hortons	43	118	0.5%	0.7%	A (LOW)	B+	Caa1
23	Save-On-Foods	4	200	0.9%	0.7%			
24	Starbucks	38	62	0.3%	0.6%		BBB+	Baa3
25	Pharmacie Jean Coutu	10	142	0.6%	0.6%			
26	Winners Merchants Inc.	5	177	0.8%	0.6%		A	A3
27	Whole Foods	2	90	0.4%	0.6%		BB+	Ba2
28	Rogers	33	92	0.4%	0.6%	BBB	BBB	Baa1
29	Reitmans	31	152	0.7%	0.6%			
30	SAQ	20	92	0.4%	0.6%	A (HIGH)	A+	Aa2
31	Target	2	246	1.1%	0.5%		A+	A2
32	Future Shop	5	140	0.6%	0.5%		BBB-	Baa2
33	Subway	58	69	0.3%	0.5%			
34	Longo's	2	78	0.3%	0.4%			
35	McDonald's	21	65	0.3%	0.4%		A	A2
36	Home Depot	2	236	1.0%	0.4%	A (LOW)	A-	A3
37	The Beer Store	10	54	0.2%	0.4%			
38	Bell Canada	37	51	0.2%	0.4%	BBB	BBB+	Baa1
39	Toys "R" Us (Canada) Ltd.	3	113	0.5%	0.3%		B	B1
40	Uniprix	7	72	0.3%	0.3%			
Total: Top 40 Tenants		877	13,897	60.1%	56.0%			

[1] Standard and Poor's

Lease Maturities

The Company's lease maturity profile at December 31, 2011 is as follows:

Maturity Date [1]	Number of Stores	Occupied Square Feet (in thousands)	Percent of Total Square Feet	Annualized Minimum Rent at Expiration ($ 000's)	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
2012 [2]	843	2,825	12.2%	$ 48,476	12.4%	$ 17.16
2013	585	2,263	9.7%	37,470	9.6%	16.56
2014	526	2,027	8.7%	36,801	9.4%	18.15
2015	530	2,429	10.5%	41,559	10.7%	17.11
2016	427	2,141	9.2%	33,786	8.7%	15.78
2017	186	1,435	6.2%	22,679	5.8%	15.81
2018	197	1,508	6.5%	24,489	6.3%	16.24
2019	175	1,298	5.6%	24,005	6.2%	18.50
2020	170	1,020	4.4%	20,564	5.3%	20.17
2021	179	1,378	5.9%	27,534	7.1%	19.98
2022	62	645	2.8%	12,585	3.2%	19.53
Thereafter	132	3,382	14.5%	59,566	15.3%	17.61
Total/Average	**4,012**	**22,351**	**96.2%**	**$ 389,514**	**100.0%**	**$ 17.39**

[1] Excluding any contractual renewal options in favour of the tenants.

[2] Includes tenants on overhold where new leases are under negotiation and month to month tenants.

The Company's expected future income through maturity from its existing in-place leases at December 31, 2011 includes:

(in thousands of dollars) Revenue Recognition Period	Minimum Rent[1]	Estimated income from Operating and Tax Recoveries
Q1, 2012	$ 84,292	$ 42,453
Q2, 2012	83,498	42,059
Q3, 2012	82,550	41,621
Q4, 2012	80,865	40,788
Total	$ 331,205	$ 166,921
2013	$ 306,206	$ 154,494
2014	274,878	138,848
2015	238,383	120,741
2016	204,616	103,633
Thereafter	877,376	446,208
Total	$ 2,232,664	$ 1,130,845

[1] Assumes non-exercise of optional periods by tenants

Loans, Mortgages and Other Real Estate Assets

	December 31	
(thousands of dollars)	**2011**	2010
Non-revolving term loan receivable from Gazit America Inc. (a)	$ 37,295	$ 36,758
Investments in marketable securities (b)	25,612	27,313
Residential inventory (c)	37,166	16,874
Other loans receivable (d)	26,787	11,897
	$ 126,860	$ 92,842

(a) The non-revolving unsecured term loan receivable from Gazit America Inc., a TSX-listed subsidiary of the Company's principal shareholder Gazit-Globe Ltd. ("Gazit"), in the amount of US$36.0 million, bears interest at 8.5% per annum calculated semi-annually, payable quarterly and is due June 19, 2014, subject to Gazit America Inc.'s option to extend the maturity date for a further five-year period at a fixed rate of 8.5%. The principal amount of the loan is prepayable without penalty from August 14, 2012. The loan arose as a result of the Company's dividend-in-kind of its interest in Gazit America Inc. in August of 2009.

(b) The Company invests from time to time in publicly traded real estate and related securities. These securities are recorded at market value. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income, while unrealized gains and losses on securities classified as fair value through profit or loss ("FVTPL") are recorded in net income. In addition, the Company has a short position in similar securities totalling $20.5 million (December 31, 2010 – $2.1 million) recorded in accounts payable and other liabilities.

(c) Residential inventory consists of the cost of the Fuzion and KingsClub residential density projects at King Liberty Village, in Toronto, as described under "Development and Redevelopment Activities" in this section of the MD&A. Fuzion and KingsClub are 100% consolidated by the Company in accordance with applicable accounting standards.

(d) Other loans receivable consists of loans and mortgages receivable. The loans are secured by interests in investment properties and bear interest at a weighted average rate of 10.0% (December 31, 2010 – 9.0%) and their fair values approximate carrying values.

RESULTS OF OPERATIONS

Net Income

	Year ended December 31	
(thousands of dollars, except share and per share amounts)	**2011**	2010
Basic net income attributable to common shareholders	$ 501,622	$ 249,497
Net income per share attributable to common shareholders (diluted)	$ 2.75	$ 1.47
Weighted average common shares – diluted [(1)]	189,131,831	180,916,596

[(1)] Includes the weighted average outstanding shares that would result from the conversion of all outstanding convertible debentures.

Net income attributable to common shareholders for the year ended December 31, 2011 was $501.6 million or $2.75 per share (diluted) compared to $249.5 million or $1.47 per share (diluted) for the prior year. The increase in net income is primarily due to the increase in the value of investment properties ($466.2 million for the year ended 2011 as compared to $178.1 million for the prior year) as well as increases in NOI resulting from acquisitions, development and redevelopment projects coming on line and same property NOI growth. The effects of the increases in net income were partially offset by increases in interest expense and the weighted average number of common shares outstanding as well as increased deferred income tax expense due to the growth in net income before tax.

Funds from Operations and Adjusted Funds from Operations

In Management's view, funds from operations ("FFO") and adjusted funds from operations ("AFFO") are commonly accepted and meaningful indicators of financial performance in the real estate industry. First Capital Realty believes that financial analysts, investors and shareholders are better served when the clear presentation of comparable period operating results generated from FFO and AFFO disclosures supplement IFRS disclosure. These measures are the primary methods used in analyzing real estate organizations in Canada. FFO and AFFO are not measures defined by IFRS and, as such, neither of them has a standard definition. The Company's method of calculating FFO and AFFO may be different from methods used by other corporations or REITs (real estate investment trusts) and, accordingly, may not be comparable to such other corporations or REITs. FFO and AFFO are presented to assist investors in analyzing the Company's performance. FFO and AFFO: (i) do not represent cash flow from operating activities as defined by IFRS, (ii) are not indicative of cash available to fund all liquidity requirements, including payment of dividends and capital for growth and (iii) are not to be considered as alternatives to IFRS net income for the purpose of evaluating operating performance.

Funds from Operations

First Capital Realty calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). In June 2010, Realpac issued a White Paper on FFO for IFRS which is effective for 2011. It includes certain additional adjustments to FFO under IFRS from the previous definition of FFO under GAAP. The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of the Company.

FFO is considered a meaningful additional financial measure of operating performance, as it excludes fair value gains and losses on investment properties. FFO also adjusts for certain items included in IFRS net income that may not be the most appropriate determinants of the long-term operating performance of the Company including certain cash and non-cash gains and losses, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS.

The Company's IFRS net income is reconciled to funds from operations below:

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Net income for the period	$ 501,651	$ 249,497
Add (deduct):		
Increase in value of investment properties	(466,214)	(178,078)
Gain on disposition of income-producing properties	—	(23)
Change in fair value of interest rate hedges [(1)]	(312)	—
Deferred taxes	126,177	81,321
FFO	$ 161,302	$ 152,717

The components of FFO are:

		Year ended December 31	
(thousands of dollars, except share and per share amounts)	% increase	**2011**	2010
Net operating income		$ 340,088	$ 314,015
Interest expense		(159,981)	(145,655)
Corporate expenses		(21,230)	(21,442)
Amortization of corporate assets and credit facility costs		(3,937)	(3,530)
Interest and other income		7,484	5,020
FFO excluding other gains (losses) and (expenses)	9.4%	162,424	148,408
Other gains (losses) and (expenses) [(2)]		(1,122)	4,309
FFO	5.6%	$ 161,302	$ 152,717
FFO per diluted share	1.1%	$ 0.96	$ 0.95
FFO per diluted share excluding other gains (losses) and (expenses)	3.2%	$ 0.96	$ 0.93
Weighted average diluted shares – FFO		168,631,921	160,030,988

(1) Represents gain on economically effective interest rate hedges that did not qualify for hedge accounting.

(2) Excludes gains on disposition of income-producing properties and unrealized net gains on hedges. Refer to the Summary of Other Gains (Losses) and (Expenses) in the following pages for additional information.

FFO increased to $161.3 million or $0.96 per share (diluted) in 2011 from $152.7 million or $0.95 per share (diluted) in 2010. The increases are primarily due to the increase in NOI resulting from acquisitions, development and redevelopment projects coming on line, as well as same property NOI growth. The effects of the increases in NOI were partially offset by increases in interest expense, other non-recurring net losses (refer to "Other gains (losses) and (expenses)" section of this MD&A), a prior year reversal of an allowance for straight-line rent receivable and the weighted average number of common shares outstanding.

The Company's 2010 FFO as presented under IFRS reconciles to the previously reported 2010 FFO under Canadian GAAP as follows:

(thousands of dollars)	Q1	Q2	Q3	Q4	Year
FFO previously reported	$ 37,346	$ 36,319	$ 38,494	$ 44,975	$ 157,134
Add (deduct)					
Amortization of above and below market rents	(513)	(665)	(653)	(656)	(2,487)
Costs capitalized under Canadian GAAP which are not capitalized under IFRS:					
Interest	(656)	(395)	(419)	(262)	(1,732)
Other costs	(118)	(13)	(85)	(117)	(333)
Other adjustments, net	59	57	57	(38)	135
FFO as restated for IFRS	$ 36,118	$ 35,303	$ 37,394	$ 43,902	$ 152,717
FFO per share previously reported	$ 0.24	$ 0.23	$ 0.24	$ 0.27	$ 0.98
FFO per share restated for IFRS	$ 0.23	$ 0.22	$ 0.23	$ 0.27	$ 0.95

The Company's reported FFO for the year ended December 31, 2010 has decreased by $4.4 million or $0.03 per share with the adoption of IFRS, primarily as a result of two items. The amortization of above and below market rents is no longer recorded as the intangible assets and intangible liabilities are no longer separately recorded under IFRS. Secondly, interest and certain other costs related to fixturing periods and the 12 month lease up period following completion of construction of any unleased space are no longer capitalized.

Straight-line rent revenue recognition differs between IFRS and Canadian GAAP as well, but no net adjustment was required because of two offsetting items. Firstly, straight-line rent revenue recognition under IFRS commences during a tenant's fixturing period, when capitalization of interest and other costs ceases. For 2010, the amount of additional straight-line rent recorded during fixturing periods would have been approximately $1.5 million. Secondly, under Canadian GAAP, straight-line rent revenue recognition commenced prospectively on January 1, 2004. Under IFRS, retroactive treatment is required from the lease commencement dates. The effect of this adjustment would have decreased the 2010 straight-line rent revenue recorded by approximately $1.5 million.

Adjusted Funds from Operations

AFFO increased to $172.0 million or $0.91 per share (diluted) for the year ended 2011 from $160.6 million or $0.89 per share (diluted) in the prior year.

AFFO is calculated by adjusting FFO for non-cash and other items including interest payable in shares, straight-line rent adjustments, non-cash compensation expense, actual costs incurred for capital expenditures and leasing costs for maintaining shopping centre infrastructures and revenues and other gains or losses. Land sales are also excluded from AFFO. The weighted average diluted shares outstanding for AFFO is adjusted to assume conversion of the outstanding convertible debentures.

AFFO has not changed as a result of the changeover to IFRS.

		Year ended December 31	
(thousands of dollars, except share and per share amounts)	% increase	**2011**	2010
FFO		$ 161,302	$ 152,717
Add/(deduct):			
Interest expense payable in shares		23,128	22,214
Rental revenue recorded on a straight-line basis		(8,490)	(9,299)
Non-cash compensation expense		3,055	2,785
Revenue sustaining capital expenditures and leasing costs [1]		(15,984)	(13,291)
Additional pre-settlement net cash from property acquisition		—	1,605
Change in cumulative unrealized losses (gains) on marketable securities		1,296	(253)
Loss on settlement of debt and purchase of convertible debentures		1,486	1,215
Loss on temporary change of conversion privilege of convertible debentures		2,501	—
Hedge accounting losses		638	1,050
Costs capitalized under Canadian GAAP which are not capitalized under IFRS [2]		3,455	2,065
Other IFRS adjustments and other, net [2]		(256)	(135)
Return of capital portion of marketable securities – net		37	133
Gain on disposition of land		(211)	(228)
AFFO	7.1%	$ 171,957	$ 160,578
Deduct: Other (gains) losses and expenses [4]		$ (4,588)	$ (7,721)
AFFO excluding other (gains) losses and expenses	9.5%	$ 167,369	$ 152,857
AFFO per diluted share	2.2%	$ 0.91	$ 0.89
AFFO per diluted share excluding other (gains) losses and expenses	4.7%	$ 0.89	$ 0.85
Weighted average diluted shares – AFFO [3]		189,131,831	180,916,597

[1] Estimated at $0.74 per square foot per annum on average gross leasable area for the year ended December 31, 2011 ($0.65 per square foot per annum in the year ended December, 2010).

[2] The Company has added back the IFRS adjustments that impact FFO, as these changes, in Management's view, do not alter the fundamental economics of the Company's business.

[3] Includes the weighted average outstanding shares that would result from the conversion of all outstanding convertible debentures.

[4] Includes other (gains) losses and expenses not adjusted for in AFFO, and consists primarily of realized gains on marketable securities.

A reconciliation from cash provided by operating activities (an IFRS measure) to AFFO is presented below:

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Cash provided by operating activities	$ 169,620	$ 162,384
Realized gains on sale of marketable securities	4,320	4,361
Deferred leasing costs	6,013	5,978
Net change in non-cash operating items	9,280	(10,903)
Expenditures on residential inventory	17,013	15,805
Mortgage financings and loans on residential inventory	(16,664)	(3,058)
Additional pre-settlement net cash from property acquisition	—	1,605
Amortization	(3,936)	(3,530)
Non-cash interest expense and change in accrued interest	(6,920)	(8,264)
Settlement of restricted share units	2,380	2,899
Realized losses on termination of hedges	—	1,588
Convertible debenture interest paid in common shares	(19,797)	(19,275)
Convertible debenture interest payable in common shares	23,128	22,214
Costs capitalized under Canadian GAAP which are not capitalized under IFRS	3,455	2,065
Other IFRS adjustments and other, net	(256)	(135)
Dividend income – return of capital portion	37	133
Revenue sustaining capital expenditures and leasing costs	(15,984)	(13,291)
Gain on foreign currency exchange	268	2
AFFO	$ 171,957	$ 160,578

Net Operating Income ("NOI")

NOI is defined as property rental revenue less property operating costs. In Management's opinion, NOI is useful in analyzing the operating performance of the Company's shopping centre portfolio. NOI is not a measure defined by IFRS and as such there is no standard definition. As a result, NOI may not be comparable with similar measures presented by other entities. NOI is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Property rental revenue		
Base rent [1]	$ 338,561	$ 309,996
Operating cost recoveries	72,768	65,354
Realty tax recoveries	97,253	87,281
Straight-line rent	8,490	9,299
Lease surrender fees	885	1,394
Percentage rent	2,195	1,960
Prior year operating cost and tax recovery adjustments	(859)	(538)
Temporary tenants, storage, parking and other	7,442	7,729
Total property rental revenue	$ 526,735	$ 482,475
Property operating costs		
Recoverable operating expenses	83,382	74,787
Realty tax expenses	105,012	94,530
Prior year realty tax expenses	(1,313)	(959)
Other operating costs and adjustments	(434)	102
Total property operating costs	$ 186,647	$ 168,460
NOI	$ 340,088	$ 314,015
NOI Margin	64.6%	65.1%
Operating cost recovery percentage	87.3%	87.4%
Tax recovery percentage	92.6%	92.3%

[1] Base rent includes annual minimum rents from gross and semi-gross leases.

The Company experienced growth in base rent and recoveries from tenants as a result of growth in the portfolio due to acquisitions and development coming on line, as well as increases in rental rates due to step ups and lease renewals. Operating costs and property taxes similarly increased due to the increase in the portfolio size. These items are discussed in the "Business and Operations Review" section of this MD&A above.

		Year ended December 31	
(thousands of dollars)	% increase	**2011**	2010
Same property NOI excluding expansion and redevelopment	1.9%	$ 283,081	$ 277,727
Expansion and redevelopment space NOI		11,366	10,167
Same property NOI with expansion and redevelopment	2.3%	294,447	287,894
Greenfield development		10,285	7,579
2011 Acquisitions		10,004	—
2010 Acquisitions		15,010	6,437
Rental revenue recognized on a straight-line basis		8,490	9,299
Dispositions and other		1,852	2,806
NOI		$ 340,088	$ 314,015

Same properties in the table above refer to those shopping centres that were owned by the Company on January 1, 2010, and throughout 2010 and 2011.

Same property NOI increased by 2.3% for the year ended December 31, 2011, compared to the prior year, generating NOI growth of $6.6 million, primarily attributed to increases in lease rates and occupancy and redevelopment and expansion space coming on line partially offset by the effect of the Blockbuster store closings (as discussed in the "Business and Operations Review – 2011 Leasing and Occupancy" section of this MD&A) as well as lower lease termination income. The effect of the Blockbuster store closings and lower lease termination income amounted to approximately $1.5 million.

Same property NOI for the year ended December 31, 2011, excluding expansion or redevelopment space, increased by $5.4 million or 1.9% over the same prior year period.

Acquisitions completed in 2011 and 2010 contributed $25.0 million to NOI growth in 2011, while greenfield development activities contributed a further $10.3 million in 2011.

NOI in 2010 included the impact of a $2.7 million reduction in the allowance for doubtful accounts in respect of straight-line rents in the fourth quarter.

Interest and Other Income

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Interest income from non-revolving term loan receivable from Gazit America Inc.	$ 3,028	$ 3,148
Interest, dividend and distribution income from marketable securities and cash investments	2,873	1,252
Interest income from loans receivable	1,583	620
	$ 7,484	$ 5,020

Interest and other income increased during 2011 due to an increase in dividend and distribution income from marketable securities, as a result of a higher level of investments and an increase in interest as a result of increased loans receivable.

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Mortgages and credit facilities	$ 82,556	$ 83,027
Senior unsecured debentures	72,746	54,613
Convertible debentures (cashless)		
Coupon interest (paid in shares)	20,470	19,886
Amortization of discounts [1]	1,530	1,357
Amortization of deferred issue costs	1,128	971
	23,128	22,214
Interest capitalized to investment properties under development	(18,449)	(14,199)
Total interest expense	$ 159,981	$ 145,655

[1] Discount results from the bifurcation of the convertible debenture into the liability and equity components under IFRS on the date of issue, and consists of amortization of the difference between the principal and the amount assigned to the liability component as a result of assigning value to the equity component.

The increase in interest expense from senior unsecured debentures is primarily due to the issuances of $325 million principal amount of senior unsecured debentures in 2011 and issuances of $400 million principal amount in 2010, offset by the repayment of $199 million of principal amount in 2011 as described in the "Capital Structure and Liquidity – Senior Unsecured Debentures" section of this MD&A.

The increase in convertible debenture interest expense is due to the issuance of $165 million principal amount of convertible debentures in the year ended December 31, 2011 offset by purchases of convertible debentures under the Company's normal course issuer bid in 2010 and 2011 as well as the conversion of approximately $192 million principal amount of 5.50% convertible debentures in connection with the temporary changes to the conversion privilege in 2011 (see the "Capital Structure and Liquidity – Convertible Debentures" section of this MD&A).

Consistent with First Capital Realty's practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures, by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Salaries, wages and benefits	$ 17,158	$ 17,775
Non-cash compensation	3,055	2,802
Other corporate costs	8,984	9,202
Abandoned transaction costs	1,267	828
	30,464	30,607
Amounts capitalized to investment properties under development and redevelopment and deferred leasing costs	(9,234)	(9,165)
	$ 21,230	$ 21,442
Corporate expenses, excluding non-cash compensation		
As a percent of rental revenue	3.5%	3.9%
As a percent of total assets	0.30%	0.37%

The overall level of corporate expenses has remained relatively constant compared to the prior year despite an increase in the size of the shopping centre portfolio.

Non-cash compensation is recognized over the respective vesting periods for options, restricted share units and deferred share units. These items are considered part of the total compensation for directors, senior management, other team members and periodically to select service providers to the Company. The period over period increases are commensurate with stronger capital market performance.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development and initial leasing of the properties, including salaries and related costs, are capitalized in accordance with IFRS to development projects, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to investment properties. Amounts capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects) during each of 2011 and 2010 totalled $9.2 million. Amounts capitalized are based on specific leasing activities and development projects underway.

Years ended December 31			**2011**			2010
(thousands of dollars)	**Included in Consolidated Statements of Income**	**Included in FFO**	**Included in AFFO**	Included in Consolidated Statements of Income	Included in FFO	Included in AFFO
Realized gains on sale of marketable securities	$ 4,320	$ 4,320	$ 4,320	$ 4,361	$ 4,361	$ 4,361
Gain from settlement of Royal Oak litigation (a)	—	—	—	1,672	1,672	3,277
Change in cumulative unrealized (losses) gains on marketable securities classified as FVTPL	(1,296)	(1,296)	—	253	253	—
Losses on settlement of debt (b)	(1,486)	(1,486)	—	(1,215)	(1,215)	—
Loss on temporary change of conversion privilege of convertible debentures (c)	(2,501)	(2,501)	—	—	—	—
Realized losses on interest rate swaps (d)	—	—	—	(1,588)	(1,588)	—
Unrealized (losses) gains on interest rate swaps	(326)	(638)	—	538	538	—
Gain on foreign currency exchange	268	268	268	2	2	2
Other income	—	—	—	58	58	58
Gain on disposition of investment properties	211	211	—	251	228	23
	$ (810)	$ (1,122)	$ 4,588	$ 4,332	$ 4,309	$ 7,721

(a) During the first quarter of 2010, the Company settled its litigation with the former co-owner of the Royal Oak Shopping Centre in Calgary, Alberta which resulted in the Company acquiring the remaining 40% interest in the Royal Oak Shopping Centre. The Company recorded a gain of $1.7 million, representing the benefit realized as a result of the change in net assets since February 2007, less the Company's costs of settling the litigation. The Company has included the entire net operating cash flow, after interest expense, from 40% of the property up to the acquisition date in the calculation of AFFO.

(b) The $1.5 million loss on settlement of debt primarily relates to the write-off of deferred financing costs arising from the termination of the secured credit facility done in conjunction with the completion of the $500 million unsecured credit facility (see "Capital Structure and Liquidity" section of this MD&A for further discussion), and a prepayment penalty on a mortgage payable.

(c) On July 12, 2011 and November 25, 2011, the Company temporarily changed the conversion privilege of its 5.50% convertible unsecured subordinated debentures by reducing the conversion price from the original conversion price of $16.425 per common share, for a 35-day period, to induce early conversion into common shares by holders of the debentures. In accordance with IAS 32 Financial Instruments: Presentation ("IAS 32") the Company recognized an expense of approximately $1.5 million and $1.0 million, respectively, calculated as the fair market value of the additional shares issuable under the conversion privilege due to the inducement. IAS 32 requires the expense to be calculated for all debentures to which the inducement was offered, notwithstanding certain holders elected not to convert in each instance.

(d) The Company terminated $90 million notional amount of Canadian bankers' acceptances based interest rate swaps in the first quarter of 2010, resulting in a loss of $1.6 million.

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Deferred taxes	$ 126,177	$ 81,321

Deferred tax expense increased compared to 2010 primarily due to the increase in the fair value adjustment of investment properties.

CAPITAL STRUCTURE AND LIQUIDITY

Capital Employed

	As at December 31	
(thousands of dollars, except for other data)	**2011**	2010
Equity capitalization		
Common stock outstanding	178,224,865	163,455,753
Mortgages and credit facilities	$ 1,584,168	$ 1,318,341
Senior unsecured debentures (principal amount)	1,247,000	1,120,799
Convertible debentures (principal amount)	300,772	343,750
Equity market capitalization (common shares at market value, based on closing share price of $17.30 (2010 – $15.11))	3,083,290	2,469,816
Total capital employed (total enterprise value), December 31	$ 6,215,230	$ 5,252,706
Debt to total assets [(1)] (IFRS basis)	46.4%	48.4%
Debt to aggregate assets [(1)] (at invested cost)	53.4%	52.2%
Debt to total market capitalization	45.4%	46.0%
Weighted average interest rate on fixed rate debt and senior unsecured debentures	5.75%	5.89%
Weighted average maturity on mortgages and senior unsecured debentures (years)	4.5	4.4
Unencumbered assets to unsecured debt		
– investment properties at fair value	1.77	1.36
– investment properties at cost	1.55	1.36
Unencumbered assets		
– investment properties at fair value	$ 2,449,822	$ 1,518,735
– investment properties at cost	$ 2,147,665	$ 1,517,179
EBITDA interest coverage [(2)]	2.12	2.18
EBITDA interest coverage excluding capitalized interest on development [(2)]	2.41	2.43

(1) Calculated with all joint ventures proportionately consolidated and cash balances reducing debt.

(2) EBITDA is calculated as net income, adding back income tax expense, interest expense, amortization expense and excluding the impact of increases in value of investment properties, gains and losses and other non-cash items. EBITDA is used in analyzing the Company's compliance with the senior unsecured debentures indenture. EBITDA is not a measure defined by IFRS and as such there is no standard definition. As a result, EBITDA may not be comparable with similar measures presented by other entities. EBITDA is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

The real estate business is capital intensive by nature. The Company's capital structure is key to financing growth and providing sustainable cash dividends to shareholders. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that the combination of debt, convertible debentures and equity in First Capital Realty's capital structure provides stability and reduces risk, while generating an acceptable return on investment, taking into account the long-term business strategy of the Company.

In 2007, the Dominion Bond Rating Service Ltd. ("DBRS") provided First Capital Realty with a credit rating upgrade to BBB with a stable trend from the previous rating of BBB (low) with a stable trend relating to the senior unsecured debentures. The Company received its initial credit rating of BBB- in May 2005, from DBRS. According to DBRS, a credit rating in the BBB category is generally an indication of adequate credit quality and an acceptable capacity for the payment of financial obligations. DBRS indicates that BBB rated obligations may be vulnerable to future events. A rating trend, expressed as positive, stable or negative, provides guidance in respect of DBRS' opinion regarding the outlook for the rating in question.

In 2006, Moody's Investors Service, Inc. ("Moody's") provided First Capital Realty with a credit rating of Baa3, with a stable outlook relating to the senior unsecured debentures. As defined by Moody's, a credit rating of Baa3 denotes that these debentures are subject to moderate credit risk and are of medium grade and, as such, may possess certain speculative characteristics. A rating outlook provided by Moody's, expressed as positive, stable, negative or developing, is an opinion regarding the outlook for the rating in question over the medium term.

DBRS and Moody's provided updates in February and April 2011, respectively, at these same investment grade ratings. On December 8, 2011, Moody's announced that it has affirmed the Baa3 senior unsecured debenture rating for First Capital Realty and revised the rating outlook to positive, from stable. According to Moody's, the revision to a positive outlook reflects Moody's expectation that First Capital Realty will continue to steadily grow its shopping centre franchise throughout Canada's major markets while improving its financial profile with key metrics such as secured debt, unencumbered assets and fixed charge coverage moving solidly into the mid-Baa range.

The Company seeks the lowest cost of debt capital over the long term. When it is deemed appropriate, the Company will raise equity as a source of financing and may strategically sell non-core assets to best redeploy capital and take advantage of market opportunities.

In 2011, the Company completed $83.7 million of secured financing on six properties at a weighted average rate of 4.44% and a weighted average term of 7.3 years. This compares to $101.4 million of secured financing on three properties in 2010 at a weighted average rate of 4.78% and a weighted average term of 8.0 years.

The Company completed the issuance of $325 million principal amount of senior unsecured debentures in 2011. This compares to the issuance of $400 million principal amount of senior unsecured debentures in 2010. In 2011, the Company raised $165 million (2010 – $nil) from the issuance of convertible debentures. These financings, along with planned financings and availability on existing credit facilities, address substantially all of the remaining contractual 2012 debt maturities and contractual committed costs to complete current development projects.

The Company uses convertible debentures as a part of its overall capital structure. Consistent with First Capital Realty's practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures through the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares. During 2011, 1,249,851 common shares (year ended December 31, 2010 – 1,390,495 common shares) were issued for $19.8 million (year ended December 31, 2010 – $19.3 million) to pay interest to holders of convertible debentures, as discussed in the "Capital Structure and Liquidity – Convertible Debentures" section of this MD&A.

(thousands of dollars, except for other data)	Mortgages	Credit Facilities	Senior Unsecured Debentures[1]	Total	% Due
2012	$ 148,648	$ 33,826	$ 100,000	$ 282,474	10.00%
2013	289,247	140,570	97,000	526,817	18.65%
2014	274,976	—	200,000	474,976	16.81%
2015	200,831	—	125,000	325,831	11.53%
2016	123,642	—	—	123,642	4.37%
2017	31,707	—	250,000	281,707	9.97%
2018	94,970	—	150,000	244,970	8.67%
2019	137,471	—	150,000	287,471	10.18%
2020	49,535	—	175,000	224,535	7.94%
Thereafter	52,977	—	—	52,977	1.88%
Add: unamortized deferred financing costs and premium and discounts, net	5,768	—	(6,406)	(638)	
	$ 1,409,772	$ 174,396	$ 1,240,594	$ 2,824,762	100.0%

[1] The covenants on the senior unsecured debentures include the requirement that unencumbered assets be equal to or greater than 1.30 times the senior unsecured debt. This pool of unencumbered assets provides the Company with financing flexibility on maturity of the debentures.

Mortgages and Credit Facilities

The changes in the book value of the Company's mortgages and credit facilities during the year ended December 31, 2011 are set out below:

(thousands of dollars, except for percentages)	Mortgages and other Secured Debt	Weighted Average Interest Rate	Credit Facilities	Weighted Average Interest Rate	Total
Balance, December 31, 2010	$ 1,318,341	6.09%	$ —	—	$ 1,318,341
Additional borrowings, net of issue costs	91,461		254,095		345,556
Assumed mortgages on acquisition of investment properties	115,299		—		115,299
Repayments	(85,503)		(80,410)		(165,913)
Principal installment payments	(36,576)		—		(36,576)
Other changes [(1)]	6,750		711		7,461
Balance, December 31, 2011	$ 1,409,772	5.88%	$ 174,396	3.04%	$ 1,584,168

[(1)] Includes amortization of issue costs, premiums and discounts.

At December 31, 2011, 99% (December 31, 2010 – 99%) of the outstanding mortgage liabilities bore interest at fixed interest rates. The fixed mortgage rates provide an effective matching for rental income from leases, which typically have fixed terms ranging from five to ten years, and incremental contractual rent steps during the term of the lease. The average remaining term of the mortgages outstanding has decreased from 4.2 years at December 31, 2010 to 4.0 years at December 31, 2011.

Mortgage Maturity and Lender Type Profile

					Breakdown of Mortgage Maturities by Type of Lender		
(thousands of dollars, except for percentages)	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate	Percent with Banks	Percent with Conduits	Percent with Insurance Co's and Pension Funds
2012	$ 37,562	$ 111,086	$ 148,648	6.65%	5.70%	64.43%	29.87%
2013	34,355	254,892	289,247	5.62%	40.13%	29.04%	30.83%
2014	25,941	249,035	274,976	6.22%	5.95%	43.23%	50.82%
2015	18,285	182,546	200,831	5.43%	—	49.66%	50.34%
2016	13,790	109,852	123,642	5.55%	10.98%	6.31%	82.71%
2017	12,473	19,234	31,707	5.85%	6.97%	—	93.03%
2018	9,917	85,053	94,970	6.20%	—	—	100.00%
2019	6,255	131,216	137,471	6.41%	26.16%	—	73.84%
2020	3,677	45,858	49,535	5.20%	—	—	100.00%
2021	2,313	46,143	48,456	4.83%	59.38%	—	40.62%
Thereafter	4,521	—	4,521	6.20%	—	—	—
Total	$ 169,089	$ 1,234,915	$ 1,404,004	5.88%	16.08%	28.41%	55.51%

The Company's strategy is to manage its long-term debt by staggering maturity dates in order to mitigate risk associated with short-term volatility in the debt markets. At December 31, 2011, the Company had mortgages aggregating $148.6 million coming due 2012. Maturing amounts are comprised of $111.1 million of mortgages maturing at an average interest rate of 6.65% and $37.6 million of scheduled amortization of principal balances.

Subsequent to December 31, 2011, the Company completed $117.0 million of 10-year mortgage financing at a weighted average interest rate of 3.92%. The Company also secured commitments for an additional $28.3 million of mortgage financing.

Credit Facilities

The Company has the flexibility under its credit facilities to draw funds based on bank prime rates, Canadian bankers' acceptances ("BA"), LIBOR-based advances or US prime for US dollar-denominated borrowings or Euro dollars. The BA's currently provide the Company with the least costly means of borrowing under these credit facilities. The credit facilities are used primarily to provide liquidity for financing acquisition, development and redevelopment activities and for general corporate purposes.

On March 5, 2009, the Company completed a three-year, $450 million secured revolving credit facility with a syndicate of ten banks. This facility replaced the Company's three-year $350 million senior unsecured revolving credit facility which had a maturity date of March 2010. The interest rate on the secured facility was initially at BA plus 350 basis points. On November 24, 2009, the Company reduced the secured revolving credit facility by $75 million and on December 30, 2009 further reduced the facility by $90 million. On January 21, 2010, the Company further reduced the availability of the secured revolving credit facility by $35 million to $250 million. As a result, $0.3 million of unamortized deferred financing costs has been recorded as a loss on settlement of debt in the first quarter of 2010.

The Company also completed a three-year $75 million secured revolving credit facility with the Bank of Nova Scotia with the same terms as the $450 million syndicated facility in January 2009. On January 21, 2010, the Company reduced the $75 million secured revolving credit facility to $50 million which resulted in $0.2 million of unamortized deferred financing costs being recorded as a loss on settlement of debt in the first quarter of 2010. Pricing on the facility is BA plus 175 basis points. The maturity date of the secured revolving credit facility is December 31, 2012.

Effective April 9, 2010, the spread charged on the two existing bank facilities decreased to 250 basis points over the BA rate.

On June 30, 2011, the Company completed a new two-year, $250 million senior unsecured revolving credit facility with two Canadian chartered banks. The Company's $250 million syndicated secured facility was concurrently reduced to $50 million. On August 29, 2011, the Company increased its new unsecured facility to $425 million on the same terms and concurrently terminated its existing $50 million syndicated secured facility. As a result of reducing and later terminating its existing syndicated secured facility, $0.2 million and $1.1 million of unamortized deferred financing costs were recorded as a loss on settlement of debt in the first and third quarter of 2011, respectively. On December 21, 2011, the Company increased the senior unsecured revolving credit facility from $425 million to $500 million on improved terms as it relates to the $75 million increase. Pricing on the unsecured facility is BA plus 200 basis points on the existing $425 million portion and BA plus 175 basis points on the new $75 million portion. The facility has a maturity date of June 30, 2013, and has a one-year extension option in favour of the Company. As of December 31, 2011, cash draws against the Company's credit facilities were $138.8 million (Cdn), and $35.6 million (US); additionally, $24.1 million in letters of credit were issued against the facilities.

Senior Unsecured Debentures

(thousands of dollars, except for percentages – As at December 31, 2011)

			Interest Rate		Term To Maturity	Principal Outstanding	
Maturity Date	Series	Date of Issue	Coupon	Effective	(yrs)	December 31, 2011	December 31, 2010
March 30, 2011	B	March 30, 2006	5.25%	5.51%	—	$ —	$ 98,899
December 1, 2011	C	August 1, 2006	5.49%	5.67%	—	—	99,900
June 21, 2012	A	June 21, 2005	5.08%	5.29%	0.5	100,000	100,000
April 1, 2013	D	September 18, 2006	5.34%	5.51%	1.3	97,000	97,000
January 31, 2014	E	January 31, 2007	5.36%	5.52%	2.1	100,000	100,000
October 30, 2014	F	April 5, 2007	5.32%	5.47%	2.9	100,000	100,000
June 1, 2015	G	November 20, 2009	5.95%	6.13%	3.4	125,000	125,000
January 31, 2017	H	January 21, 2010	5.85%	5.99%	5.1	125,000	125,000
November 30, 2017	I	April 13, 2010	5.70%	5.85%	5.9	50,000	50,000
November 30, 2017	I	April 13, 2010	5.70%	5.82%	5.9	25,000	25,000
November 30, 2017	I	June 14, 2010	5.70%	5.70%	5.9	50,000	50,000
August 30, 2018	J	July 12, 2010	5.25%	5.66%	6.7	50,000	50,000
November 30, 2018	K	August 25, 2010	4.95%	5.30%	6.9	50,000	50,000
November 30, 2018	K	October 26, 2010	4.95%	5.04%	6.9	50,000	50,000
July 30, 2019	L	January 21, 2011	5.48%	5.61%	7.6	150,000	—
April 30, 2020	M	March 30, 2011	5.60%	5.73%	8.3	110,000	—
April 30, 2020	M	June 13, 2011	5.60%	5.39%	8.3	65,000	—
			5.49%	5.63%	4.9	$ 1,247,000	$ 1,120,799

On January 21, 2011, the Company completed the issuance, on a bought deal basis, of $150 million principal amount of senior unsecured debentures, Series L, due July 30, 2019. These debentures bear interest at a coupon rate of 5.48% per annum payable semi-annually commencing July 30, 2011.

On March 30, 2011, the Company completed the issuance, on a bought deal basis, of $110 million principal amount of senior unsecured debentures, Series M, due April 30, 2020. On June 13, 2011, the Company issued, on a bought deal basis, a further $65 million principal amount in this same series. These debentures bear interest at a coupon rate of 5.60% per annum payable semi-annually commencing October 30, 2011.

On issuance, each series of senior unsecured debentures issued was rated BBB with a stable trend by DBRS and Baa3 (stable) by Moody's.

On March 30, 2011, the Company repaid the $99 million principal amount of Series B debentures with a coupon rate of 5.25%, upon maturity.

On December 1, 2011, the Company repaid the $99.9 million principal amount outstanding of Series C debentures with a coupon rate of 5.49%.

Convertible Debentures

(thousands of dollars, except for percentages – As at December 31, 2011)

Interest Rate				Principal at			
Coupon	Effective	Date of Issue	Maturity Date	Issue Date	Principal	Liability	Equity
5.50%	6.61%	Various [(1)]	September 30, 2017	$ 250,000	$ 19,866	$ 18,828	$ 1,060
6.25%	7.64%	September 18, 2009	December 31, 201		with a with a with		

On February 16, 2012, the Company completed the issuance, on a bought deal basis, of $75.0 million aggregate principal amount of 4.95% convertible unsecured subordinated debentures due March 31, 2017. The debentures bear interest at a rate of 4.95% per annum payable semi-annually on March 31 and September 30 (commencing September 30, 2012), and are convertible at the option of the holder into common shares of the Company at a conversion price of $23.75 per common share. The closing included $5.0 million aggregate principal amount of debentures issued as a result of the exercise in full of the underwriters' option.

(iii) Temporary Change of Conversion Privilege

On July 12, 2011, the Company temporarily changed the conversion privilege of its approximately $212.8 million principal amount outstanding of 5.50% convertible unsecured subordinated debentures, class CDN and class US (TSX: FCR.DB.A and FCR.DB.B) (the "5.50% Debentures"). The temporary change reduced the conversion price of the 5.50% Debentures to $16.25 from the original conversion price of $16.425, for a 35-day period ending on August 16, 2011. As of the announcement of the temporary change to the conversion privilege, Gazit Canada Inc. ("Gazit Canada"), a wholly owned subsidiary of Gazit, was a holder of approximately 48.4% of First Capital Realty's outstanding common shares and holder of approximately 74% of the outstanding 5.50% Debentures. Pursuant to the temporary change to the conversion privilege, a total of approximately $84.7 million principal amount of 5.50% Debentures was converted into approximately 5.2 million common shares, including $74 million converted by Gazit Canada. In connection with the temporary change to the conversion privilege, the Company recorded an expense of $1.5 million as required by IAS 32.

On November 25, 2011, the Company temporarily changed the conversion privilege of the remaining approximately $126.6 million principal amount outstanding of 5.50% Debentures. The temporary change reduced the conversion price of the 5.50% Debentures to $16.30 for a 35-day period from the original conversion price of $16.425, ending on December 30, 2011. As of the announcement of the temporary change to the conversion privilege, Gazit Canada was a holder of approximately 49.5% of First Capital Realty's outstanding common shares and holder of approximately 65.9% of the outstanding 5.50% Debentures. Pursuant to the temporary change to the conversion privilege, a total of approximately $106.8 million principal amount of 5.50% Debentures was converted into approximately 6.5 million common shares, including $83.4 million converted by Gazit Canada. In connection with the temporary change to the conversion privilege, the Company recorded an expense as required by IAS 32 of $1.0 million.

For the year ended December 31, 2011, convertible debentures aggregating $205.9 million principal amount were converted into 12.7 million shares.

Subsequent to December 31, 2011, the remaining $19.9 million principal amount of 5.50% Debentures was redeemed at par by the Company on February 15, 2012 or converted by holders prior thereto.

(iv) Normal Course Issuer Bids

On August 10, 2010 First Capital Realty commenced a normal course issuer bid (the "NCIB-I") effective for each series of its convertible unsecured subordinated debentures then outstanding. The NCIB expired on August 9, 2011. During the course of the NCIB-I, the Company purchased for cancellation $0.9 million principal amount of 5.50% Debentures and $7.2 million principal amount of 6.25% convertible unsecured subordinated debentures.

On August 25, 2011, First Capital Realty commenced a normal course issuer bid for its 5.50% Debentures and its 6.25%, 5.70% and 5.40% convertible unsecured subordinated debentures. On September 19, 2011 the Company expanded its normal course issuer bid to include its 5.25% convertible unsecured subordinated debentures due January 31, 2019 (the "5.25% Debentures") (collectively, the normal course issuer bid with respect to all of the aforementioned series of convertible debentures is referred to as "NCIB-II"). NCIB-II will expire on August 24, 2012 in respect of all included series of convertible debentures, other than the 5.25% Debentures in respect of which it will expire on September 18, 2012, or such earlier date as the Company completes its purchases pursuant to the NCIB-II. All purchases made under the NCIB-II will be made in accordance with the rules of the TSX through the facilities of the TSX or other Canadian marketplaces at market prices prevailing at the time of purchase and the timing of such purchases will be determined by First Capital Realty.

Since beginning the NCIB-I and NCIB-II, the Company has purchased for cancellation $10.1 million principal amount of the 5.50% Debentures and 5.70% and 6.25% convertible debentures.

Shareholders' Equity

Shareholders' equity amounted to $2.4 billion as at December 31, 2011, as compared to $1.8 billion at December 31, 2010. Shareholders' equity as at December 31, 2011 included $7.7 million (December 31, 2010 – $19.6 million) representing the equity component of convertible debentures as discussed above.

As at December 31, 2011, the Company had 178,224,865 (December 31, 2010 – 163,455,753) issued and outstanding common shares with a stated capital of $1.9 billion (December 31, 2010 – $1.7 billion). During the year ended December 31, 2011, a total of 14,769,112 common shares for proceeds of $239.6 million were issued as follows: 1,249,851 shares for interest payments on convertible debentures, 12,650,790 shares from the conversion of convertible debentures, 778,271 shares from the exercise of common share options and 90,200 common shares to four members of the Company's management in settlement of restricted share units.

On May 27, 2010, the Company completed the subdivision of its common shares at a ratio of 3.2 common shares for each two common shares. The common shares commenced trading on a post stock-split basis on the TSX effective May 25, 2010. No fractional common shares were issuable as a result of the subdivision but, rather, a cash payment was made for such fractional interests determined on the basis of the closing price of the common shares on the TSX on May 28, 2010.

As a result of and effective immediately following the subdivision, the conversion price of the Company's convertible debentures then outstanding (TSX:FCR.DB.A, FCR.DB.B, FCR.DB.C and FCR.DB.D) was decreased by (multiplying by) a factor of 0.625.

As at March 8, 2012, 179,551,998 common shares were outstanding.

Share Purchase Options

As of December 31, 2011, the Company had outstanding 5,591,888 share purchase options, with an average exercise price of $14.89. The options are exercisable by the holder at any time after vesting up to ten years from the date of grant. The options have been issued at various times pursuant to the Company's stock option plan to the employees, officers and directors of the Company. The options granted permit the holder to acquire shares at an exercise price equal to the market price of such shares at the date the option is granted. The purpose of granting options is to encourage the holder to acquire an ownership interest in the Company over a period of time, which acts as a financial incentive to align the interests of the holder with the long-term interests of the Company and its shareholders.

If all options outstanding at December 31, 2011 were exercised, 5,591,888 shares would be issued and the Company would receive proceeds of approximately $83.3 million. Based on the December 31, 2011 closing share price of $17.30 there were no options out-of-the-money at December 31, 2011.

Liquidity

	As at December 31	
(thousands of dollars)	**2011**	2010
Revolving credit facilities approved	$ 550,000	$ 300,000
Cash and cash equivalents	$ 3,075	$ 31,735
Unencumbered assets available as defined by debt covenants	$ 2,449,822	$ 1,518,735
Unencumbered assets required as defined by debt covenants	$ 1,803,841	$ 1,457,000
Other unencumbered real estate assets including properties under development	$ 239,841	$ 216,978

Cash flow from operations is dependent on occupancy levels of properties, rental rates achieved, collections of rent and costs to maintain or lease space. The Company's strategy is to maintain debt in the range of 45% to 60% of market capitalization. At December 31, 2011, this debt ratio was 45.4% based on the Company's calculation. Maturing debt is generally repaid from proceeds from refinancing such debt.

Cash and cash equivalents were $3.1 million at December 31, 2011 (December 31, 2010 – $31.7 million). At December 31, 2011, the Company had credit facilities totalling $550 million of which $351.5 million is undrawn. The Company also had unencumbered assets with a fair value of approximately $2.4 billion. During the year ended December 31, 2011, the Company issued $325 million in senior unsecured debentures. As a result the Company also held average cash balances of approximately $43.0 million in 2011. These transactions demonstrate the Company's access to capital and various sources of financing. Management believes that it has sufficient resources to meet its operational and investing requirements in the near- and longer-term based on the availability of capital in various markets.

The Company has historically used secured mortgages, term loans and revolving credit facilities, senior unsecured debentures, convertible debentures and equity issues to finance its growth. The actual level and type of future borrowings will be determined based on prevailing interest rates, various costs of debt and equity capital, capital market conditions and Management's general view of the required leverage in the business.

Cash Flows

	Year ended December 31	
(thousands of dollars)	**2011**	2010
Cash provided by operating activities before net change in non-cash operating items and expenditures on residential inventory, net of financing	$ 179,249	$ 164,228
Net change in non-cash operating items	(9,280)	10,903
Expenditures on residential inventory, net of financings	(349)	(12,747)
Cash provided by operating activities	169,620	162,384
Cash provided by financing activities	303,137	251,013
Cash used in investing activities	(501,500)	(386,210)
Effect of currency rate movement	83	—
(Decrease) increase in cash and cash equivalents	$ (28,660)	$ 27,187

Operating Activities

Cash provided by operating activities increased primarily from cash flow generated by growth in net operating income from the Company's shopping centre portfolio, increased use of financing to fund expenditures on residential inventory offset by decreases in accounts payable due to the timing of payments on trade payables and increases in accounts receivable due to timing or receipts on trade receivables.

Financing Activities

The cash flow provided by financing activities includes the issuance of senior unsecured and convertible debentures, equity issuances mortgage financing activities, higher credit facility activities offset by the repayment of unsecured debentures at maturity. The overall level of financing activity in 2011 is higher than the prior year. These activities are more fully described in the "Capital Structure and Liquidity" section of this MD&A.

Investing Activities

The Company continues to acquire properties and make significant investments in its portfolio. The overall level of investing activity in 2011 is higher than the prior year. Details of the Company's investments in acquisitions and developments are provided under the "Business and Operations Review" section of this MD&A.

Contractual Obligations

	Payments Due by Period				
(thousands of dollars)	2012	2013 to 2014	2015 to 2016	Thereafter	Total
Mortgages					
Scheduled amortization	$ 37,562	$ 60,296	$ 32,075	$ 39,156	$ 169,089
Payments on maturity	111,086	503,927	292,398	327,504	1,234,915
Total mortgage obligations	148,648	564,223	324,473	366,660	1,404,004
Credit facilities	33,826	140,570	—	—	174,396
Senior unsecured debentures	100,000	297,000	125,000	725,000	1,247,000
Interest obligations [1]	152,098	233,959	142,116	137,976	666,149
Land leases	903	1,777	1,572	17,406	21,658
Contractual committed costs to complete current development projects	68,930	16,654	—	—	85,584
Other committed costs	11,531	—	—	—	11,531
Total contractual obligations	$ 515,936	$ 1,254,183	$ 593,161	$ 1,247,042	$ 3,610,322

[1] Interest obligations include expected interest payments on mortgages, credit facilities at December 31, 2011, (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

In addition, the Company has $24.1 million of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

The Company's estimated costs to complete properties currently under development is $181.3 million of which $85.6 million are contractually committed. The balance of the costs to complete will only be committed once leases are signed and construction activities are underway. These contractual and potential obligations primarily consist of construction contracts and additional planned development expenditures and are expected to be funded from credit facilities as the work is completed.

The Company is liable for minimum land-lease payments of $0.9 million on certain of its properties in each year from 2012 to 2015 and $20.8 million thereafter. Total minimum land-lease payments are $21.7 million. The leases expire between 2023 and 2061.

Contingencies

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of Management, none of these, individually or in aggregate, would result in a liability that would have a material adverse effect on the financial position of the Company.

The Company is contingently liable, jointly and severally, for approximately $37.6 million (December 31, 2010 – $36.3 million) to various lenders in connection with loans advanced to its joint venture co-owners secured by the partners' interest in the co-ownerships.

SHARE PRICE AND DIVIDEND HISTORY

	2011	2010	2009	2008
Average Closing Share Price [1]				
1st Quarter	$ 15.63	$ 13.43	$ 10.11	$ 13.97
2nd Quarter	$ 16.56	$ 13.98	$ 10.21	$ 14.48
3rd Quarter	$ 16.52	$ 14.42	$ 11.29	$ 13.90
4th Quarter	$ 16.77	$ 15.37	$ 12.68	$ 11.55
Closing price, end of year	$ 17.30	$ 15.11	$ 13.54	$ 11.86
Dividend History (per Common Share) [1]				
1st Quarter	$ 0.20	$ 0.20	$ 0.20	$ 0.20
2nd Quarter	$ 0.20	$ 0.20	$ 0.20	$ 0.20
August 14, 2009 dividend-in-kind	$ —	$ —	$ 0.28	$ —
3rd Quarter	$ 0.20	$ 0.20	$ 0.20[2]	$ 0.20
4th Quarter	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Total	$ 0.80	$ 0.80	$ 1.08	$ 0.80
Total excluding dividend-in-kind	$ 0.80	$ 0.80	$ 0.80	$ 0.80
Dividend Yield on average closing price (end of period annualized dividend)	4.77%	5.21%	6.31%	6.93%

[1] Prior periods restated to reflect the May 2010, 3.2:2 stock split.

[2] Amount represents the regular dividend. A dividend-in-kind of $0.28 was distributed in addition to the regular dividend. See discussion of dividend-in-kind in "Summary of Consolidated Information & Highlights" section of this MD&A.

The Company has paid regular quarterly dividends to common shareholders since it commenced operations as a public company in 1994. Dividends are set taking into consideration the Company's capital requirements, its alternative sources of capital and common industry cash distribution practices.

	Year ended December 31	
	2011	2010
Regular dividends paid per common share	$ 0.80	$ 0.80
Payout ratio calculated as a percentage of:		
Funds from operations	83.6%	83.9%
Adjusted funds from operations	88.0%	90.1%

Quarterly Dividend

The Company announced that it will pay a first quarter dividend of $0.20 per common share on April 12, 2012 to shareholders of record on March 30, 2012.

QUARTERLY FINANCIAL INFORMATION

	2011				2010[2]			
(thousands of dollars, except per share and other data)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property rental revenue	$136,518	$131,398	$129,437	$129,382	$129,966	$118,438	$116,470	$117,601
Property operating costs	48,088	44,893	45,761	47,905	44,095	39,996	40,995	43,374
Net operating income	88,430	86,505	83,676	81,477	85,871	78,442	75,475	74,227
Increase (decrease) in value of investment property, net	208,318	72,278	163,508	22,110	26,403	139,022	21,522	(8,869)
Net income attributable to common shareholders	208,882	92,062	154,247	46,431	46,293	139,048	43,734	20,422
Net income per share attributable to common shareholders:								
Basic[1]	$ 1.21	$ 0.54	$ 0.93	$ 0.28	$ 0.28	$ 0.86	$ 0.28	$ 0.13
Diluted[1]	$ 1.11	$ 0.51	$ 0.84	$ 0.27	$ 0.27	$ 0.78	$ 0.28	$ 0.13
Weighted average diluted shares outstanding – EPS[1]	193,236,926	191,166,488	188,619,226	185,908,645	185,487,382	183,759,780	179,547,106	155,676,590
Funds from operations	43,490	40,441	38,045	39,326	43,902	37,394	35,303	36,118
Funds from operations/ share diluted[1]	$ 0.25	$ 0.24	$ 0.23	$ 0.24	$ 0.27	$ 0.23	$ 0.22	$ 0.23
Cash provided by operating activities	54,494	33,574	31,613	41,155	40,261	45,954	45,473	30,682
Weighted average diluted shares outstanding – FFO[1]	173,221,415	170,035,046	166,353,014	164,754,435	164,235,206	162,157,130	157,835,090	155,676,590
Adjusted funds from operations	45,139	45,081	41,518	40,219	43,347	39,667	36,648	40,916
Adjusted funds from operations/share diluted[1]	$ 0.23	$ 0.24	$ 0.22	$ 0.22	$ 0.23	$ 0.22	$ 0.20	$ 0.23
Weighted average diluted shares outstanding – AFFO[1]	193,236,926	191,166,488	188,619,226	185,908,645	185,487,382	183,759,780	179,547,106	177,395,934
Regular dividend[1]	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Fair value of shopping centres	5,811,288	5,330,188	5,128,150	4,904,198	4,734,574	4,562,020	4,373,823	4,200,892
Weighted average capitalization rate of shopping centres	6.34%	6.55%	6.67%	6.92%	6.97%[4]	7.04%[4]	7.32%[4]	7.41%[4]
Total assets	6,111,144	5,696,456	5,534,074	5,204,308	4,988,017	4,870,331	4,619,029	4,395,880
Total mortgages and credit facilities	1,584,168	1,344,516	1,326,992	1,332,100	1,318,341	1,323,556	1,337,288	1,333,334
Shareholders' equity	2,421,728	2,151,078	1,999,692	1,859,059	1,832,597	1,798,783	1,671,402	1,599,462
Other Data								
Number of properties[3]	169	166	163	163	162	161	162	161
Gross leasable area	23,227,000	22,811,000	22,345,000	22,351,000	21,624,000	21,271,000	21,272,000	20,829,000
Occupancy %	96.2%	96.3%	96.2%	96.4%	96.4%	96.4%	96.4%	96.3%

[1] Prior year periods restated to reflect the May 2010, 3.2:2 stock split. See the "Capital Structure and Liquidity – Shareholders' Equity" section of this MD&A.

[2] 2010 amounts have been restated under IFRS standards.

[3] The property counts have been revised retroactively to January 1, 2010 to combine certain properties that are adjacent or proximate to reflect the manner in which Management operates and analyzes property performance.

[4] Restated to reflect final IFRS classifications.

Refer to the applicable MD&A and the Quarterly Financial Statements for discussion and analysis relating to the four quarters in 2010 and first three quarters in 2011. While those documents refer to financial statement figures prepared under Canadian GAAP, their analysis remains relevant even with the restatement of certain amounts under IFRS. A discussion of the fourth quarter of 2011 follows.

FOURTH QUARTER 2011 OPERATIONS AND RESULTS

Acquisitions and Development

During the fourth quarter of 2011, the Company invested $153.0 million in the acquisition of two income-producing properties totalling 331,500 square feet. The Company also invested $15.3 million in the acquisition of three additional spaces and adjacent land parcels totalling 48,000 square feet and 1.0 acres. Further, the Company invested $10.5 million in the acquisition of three development land assemblies, comprising 0.9 acres of commercial land for future development.

In addition to acquisitions of income-producing properties and development lands, the Company invested $84.2 million during the fourth quarter in its active development projects as well as in certain improvements to existing properties.

Development of 114,000 square feet was brought on line in the fourth quarter of 2011, with 86,000 square feet leased at an average rate of $28.25 per square foot. The Company also reopened 12,000 square feet of redeveloped space at an average rate of $33.63 per square foot.

Property Name	City	Province	Square Feet[1]	Major Tenants
Central Region				
Rutherford Marketplace [2]	Vaughan	ON	3,800	LA Fitness
Appleby Village [2]	Burlington	ON	28,500	Dollarama
Burlingwood Shopping Centre	Burlington	ON	6,150	Pharma Plus
Bowmanville Mall	Bowmanville	ON	5,300	Royal Bank of Canada
Eastern Region				
Carrefour St. David [2]	Beauport	QC	5,000	SAQ, Banque Nationale
Plaza Delson	Delson	QC	6,600	Loblaws, Pharmaprix (Shoppers Drug Mart)
Carrefour St-Hubert	St-Hubert	QC	5,000	CIBC
Cole Harbour	Cole Harbour	NS	7,300	Various tenants
Western Region				
Deer Valley Shopping Centre [2]	Calgary	AB	6,500	Booster Juice
Broadmoor Shopping Centre & Residential	Richmond	BC	22,700	Shoppers Drug Mart
Port Place Shopping Centre [2]	Nanaimo	BC	1,900	Subway
Coronation Mall [2]	Duncan	BC	4,800	Vancouver Island Health Authority
Other space – various projects			22,550	
Total			126,100	

[1] Includes new space development projects and redevelopment and expansion projects.
[2] Constructed in accordance with LEED certification standards.

Development and redevelopment of 126,000 square feet was completed in the fourth quarter of 2011 compared with 121,000 square feet developed in the fourth quarter of 2010. This new space was 78% occupied when transferred to income-producing shopping centres at an average rental rate of $28.82 per square foot.

	Three months ended	
(thousands of dollars)	**December 31, 2011**	December 31, 2010
Revenue sustaining	$ 5,539	$ 4,242
Revenue enhancing	8,936	2,495
Expenditures recoverable from tenants	1,593	1,519
Other items and adjustments	1,882	935
Development expenditures	66,220	37,949
Total	$ 84,170	$ 47,140

In the fourth quarter of 2011, revenue sustaining capital expenditures totalled $0.24 per square foot (2010 – $0.20 per square foot). The increase of $0.04 per square foot is primarily due to the increase in roof replacement expenditures.

Leasing and Occupancy

Changes in the Company's gross leasable area and occupancy in the fourth quarter 2011 are set out below:

For the three months ended December 31, 2011	Total Square Feet (thousands)	Occupied Square Feet (thousands)	%	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	No. of Leases	Rate per Occupied Square Foot
September 30, 2011	**22,811**	**21,977**	**96.3%**	**96**	**0.4%**	**738**	**3.3%**		**$ 16.73**
Tenant openings	—	193		—		(193)		83	19.11
Tenant closures	—	(172)		—		172		(74)	(21.29)
Closures for redevelopment	—	(33)		33		—		(14)	(16.50)
Developments – coming on line	114	86		—		28		45	28.25
Redevelopments – coming on line	—	12		(12)		—		6	33.63
Demolitions	(45)	—		(45)		—		—	—
Reclassification	(3)	(19)		23		(7)		—	—
Total portfolio before dispositions and acquisitions	22,877	22,044	96.4%	95	0.4%	738	3.2%		16.74
Dispositions	(30)	(28)		—		(2)		(9)	(24.76)
Acquisitions	380	335		32		13		194	22.08
December 31, 2011	**23,227**	**22,351**	**96.2%**	**127**	**0.6%**	**749**	**3.2%**		**$ 16.81**
Renewals	—	251		—		—		77	$ 20.16
Renewals – expired	—	(251)		—		—		(77)	$ (18.76)
Net increase per square foot from renewals									1.40
% Increase on renewal of expiring rents									7.5%

In the fourth quarter of 2011, gross new leasing totalled 291,000 square feet including development and redevelopment space coming on line compared to 176,000 square feet in the fourth quarter of 2010. This gross new leasing will generate additional annual minimum rent of approximately $6.5 million. The Company achieved a 7.5% increase on 251,000 square feet of renewal leases over the expiry rates.

With the impact of leasing during the three months ended December 31, 2011 on the existing portfolio and development space, new acquisitions and increases from contractual rent steps, the average rate per occupied square foot increased to $16.81 at December 31, 2011. This compares to an average rate of $16.73 at September 30, 2011 and $16.35 at December 31, 2010.

Closures for redevelopment totalled 33,000 square feet in the three months ended December 31, 2011, providing potential for future income growth through leasing and redevelopment activities.

For the three months ended December 31, 2010	Total Square Feet (thousands)	Occupied Square Feet (thousands)	%	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	No. of Leases	Rate per Occupied Square Foot
September 30, 2010	**21,271**	**20,511**	**96.4%**	**127**	**0.6%**	**633**	**3.0%**		**$ 16.26**
Tenant openings	—	57		—		(57)		36	21.82
Tenant closures	—	(76)		—		76		(33)	(20.15)
Closures for redevelopment	—	(35)		35		—		(21)	(18.89)
Developments – coming on line	79	77		—		2		18	22.81
Redevelopments – coming on line	—	42		(42)		—		6	15.73
Demolitions	(28)	—		(23)		(5)		17	—
Reclassification	(14)	(9)		29		(34)		—	—
Total portfolio before acquisitions	21,308	20,567	96.5%	126	0.6%	615	2.9%		16.32
Acquisitions	316	285		—		31		109	18.05
December 31, 2010	**21,624**	**20,852**	**96.4%**	**126**	**0.6%**	**646**	**3.0%**		**$ 16.35**
Renewals	—	224		—		—		81	$ 20.39
Renewals – expired	—	(224)		—		—		(81)	(17.89)
Net increase per square foot from renewals									$ 2.50
% Increase on renewal of expiring rents									14.0%

In the fourth quarter of 2010, gross new leasing totalled 176,000 square feet including development and redevelopment space coming on line compared to 266,000 square feet in the fourth quarter of 2009. This gross new leasing generated additional annual minimum rent of approximately $3.7 million. Renewal leasing totalled 224,000 square feet with a 14.0% increase over expiring lease rates.

Net Income

	Three months ended	
(thousands of dollars, except per share amounts)	**December 31, 2011**	December 31, 2010
Basic net income attributable to common shareholders	$ 208,882	$ 46,293
Net income per share attributable to common shareholders (diluted)	$ 1.11	$ 0.27
Weighted average common shares – diluted	193,236,926	185,487,382

Net income attributable to common shareholders for the three months ended December 31, 2011 was $208.9 million or $1.11 per share (diluted) compared to $46.3 million or $0.27 per share (diluted) for the three months ended December 31, 2010. The increase in net income is primarily due to the larger increase in the value of investment properties ($208.3 million for the three months ended December 31, 2011 as compared to $26.4 million for the same prior year period), as well as increases in NOI resulting from acquisitions, development and redevelopment projects coming on line for the three months ended December 31, 2011. These were offset by increases in interest expense, non-cash loss on temporary change of conversion privilege of convertible debentures (refer to "Other Gains (Losses) and (Expenses)" section of this MD&A), the weighted average number of common shares outstanding resulting from financing activities, and increased deferred income tax expense due to the growth in net income before tax.

Funds from Operations

The Company's IFRS net income is reconciled to FFO below:

	Three months ended	
(thousands of dollars)	**December 31, 2011**	December 31, 2010
Net income for the period	$ 208,934	$ 46,293
Add (deduct):		
Increase in value of investment properties	(208,318)	(26,403)
Loss on disposition of income-producing properties	—	8
Change in fair value of interest rate hedges [1]	(312)	—
Deferred taxes	43,186	24,004
FFO	$ 43,490	$ 43,902

The components of FFO are:

	Three months ended	
(thousands of dollars, except per share amounts)	**December 31, 2011**	December 31, 2010
Net operating income	$ 88,430	$ 85,871
Interest expense	(40,140)	(37,602)
Corporate expenses	(5,926)	(6,628)
Amortization of corporate assets and credit facility costs	(971)	(962)
Interest and other income	1,976	1,472
FFO excluding other gains (losses) and (expenses)	43,369	42,151
Other gains (losses) and (expenses) [2]	121	1,751
FFO	$ 43,490	$ 43,902
FFO per diluted share	$ 0.25	$ 0.27
FFO per diluted share excluding other gains (losses) and (expenses)	$ 0.25	$ 0.26
Weighted average diluted shares – FFO [3]	173,221,415	164,235,206

[1] Represents gain on economically effective interest rate hedges that do not qualify for hedge accounting.

[2] Excludes gains (losses) on disposition of income-producing properties and also excludes gains on hedges. Refer to the Summary of Other Gains (Losses) and (Expenses) in the following pages for additional information.

[3] For the fourth quarter of 2010, the 5.50% convertible debentures are dilutive for FFO. The dilutive effect is calculated by adding back $3.5 million of interest expense associated with these debentures to the numerator and 13.8 million shares issuable to the denominator. The effect would lower FFO per share by $0.0014 and is therefore not material.

FFO decreased to $43.5 million or $0.25 per share (diluted) in the fourth quarter of 2011 from $43.9 million or $0.27 per share (diluted) in the same prior year period. The decrease is primarily due to a prior year reversal of an allowance for straight-line rent receivable, the Blockbuster bankruptcy, the timing of operating cost and property tax recovery adjustments and increases in interest expense. In addition, the weighted average number of common shares outstanding increased from financing activities. The decrease is also due to the change in other gains (losses) and expenses (refer to "Other gains (losses) and (expenses)" section of this MD&A. These are offset by increases in NOI resulting from acquisitions, development and redevelopment projects coming on line.

Adjusted Funds from Operations

AFFO for the three months ended December 31, 2011 totalled $45.1 million or $0.23 per diluted common share compared to $43.3 million or $0.22 per diluted common share in the prior year period.

	Three months ended	
(thousands of dollars, except per share amounts)	**December 31, 2011**	December 31, 2010
FFO	$ 43,490	$ 43,902
Add/(deduct):		
Interest expense payable in shares	5,794	5,536
Rental revenue recorded on a straight-line basis	(2,746)	(4,193)
Non-cash compensation expense	782	753
Revenue sustaining capital expenditures and leasing costs [1]	(5,063)	(3,370)
Return of capital portion of marketable securities – net	—	35
Change in cumulative unrealized losses on marketable securities	451	701
Loss on settlement of debt and purchase of convertible debentures	12	160
Loss on temporary change of conversion privilege of convertible debentures	984	—
Hedge accounting losses	385	(594)
Costs capitalized under Canadian GAAP which are not capitalized under IFRS [2]	1,082	379
Other net IFRS adjustments [2]	(64)	38
Gain on disposition of land	32	—
AFFO	$ 45,139	$ 43,347
Deduct: Other (gains) losses and expenses [4]	$ (1,985)	$ (2,010)
AFFO excluding (gains) losses and expenses	$ 43,154	$ 41,337
AFFO per diluted share	$ 0.23	$ 0.23
AFFO per diluted share excluding other (gains) losses and expenses	$ 0.22	$ 0.22
Weighted average diluted shares – AFFO [3]	193,236,926	185,487,382

[1] Estimated at $0.74 per square foot per annum on average gross leasable area for the three months ended December 31, 2011 ($0.65 per square foot per annum for the three months ended December 31, 2010).

[2] The Company has added back the IFRS adjustments that impact FFO, as these changes, in Management's view, do not alter the fundamental economics of the Company's business.

[3] Includes the weighted average outstanding shares that would result from the conversion of all outstanding convertible debentures.

[4] Non-recurring AFFO items includes other (gains) losses and expenses not adjusted for in AFFO, and primarily consists of realized gains on marketable securities.

A reconciliation from cash provided by operating activities (an IFRS measure) to AFFO is presented below:

	Three months ended	
(thousands of dollars, except per share amounts)	**December 31, 2011**	December 31, 2010
Cash provided by operating activities	$ 54,494	$ 40,261
Realized gains on sale of marketable securities	2,002	2,074
Dividend income – return of capital portion	—	35
Deferred leasing costs	1,593	1,702
Net change in non-cash operating items	(20,561)	(10,589)
Expenditures on residential inventory	8,723	13,559
Mortgage financings and loans on residential inventory	(3,918)	(2,125)
Amortization	(970)	(962)
Non-cash interest expense and change in accrued interest	(337)	(4,789)
Settlement of restricted share units	2,380	1,656
Convertible debenture interest payable in common shares	5,795	5,535
Costs capitalized under Canadian GAAP which are not capitalized under IFRS	1,082	379
Other net IFRS adjustments	(64)	38
Revenue sustaining capital expenditures and leasing costs	(5,063)	(3,370)
Gain on foreign currency exchange	(17)	(57)
AFFO	$ 45,139	$ 43,347

Interest and Other Income

	Three months ended	
(thousands of dollars)	**December 31, 2011**	December 31, 2010
Interest income from non-revolving term loan receivable from Gazit America Inc.	$ 790	$ 756
Interest, dividend and distribution income from marketable securities and cash investments	477	521
Interest income from loans receivable	709	195
	$ 1,976	$ 1,472

	Three months ended	
(thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Mortgages and credit facilities	$ 21,200	$ 20,543
Senior unsecured debentures	18,544	15,644
Convertible debentures (cashless)		
Coupon interest (paid in shares)	5,114	4,940
Amortization of discounts [(1)]	390	348
Amortization of deferred issue costs	290	248
	5,794	5,536
Interest capitalized to investment properties under development	(5,398)	(4,121)
Total interest expense	$ 40,140	$ 37,602

[(1)] Discount results from the bifurcation of the convertible debenture into the liability and equity components under IFRS on the date of issue, and consists of amortization of the difference between the principal and the amount assigned to the liability component as a result of assigning value to the equity component.

The increase in interest expense from senior unsecured debentures is primarily due to the issuances of $325 million principal amount of senior unsecured debentures in 2011 and issuances of $400 million principal amount in 2010, offset by the repayment of $199 million of principal amount in 2011 as described in the "Capital Structure and Liquidity – Senior Unsecured Debentures" section of this MD&A.

The increase in convertible debenture interest expense is due to the issuance of $165 million principal amount of convertible debentures in the year ended December 31, 2011 offset by the purchases of convertible debentures under the Company's normal course issuer bid (see the "Capital Structure and Liquidity – Convertible Debentures" section of this MD&A) in 2010 and 2011 as well as the conversion of approximately $192 million principal amount of 5.50% Debentures in connection with the temporary change to the conversion privilege in 2011.

	Three months ended	
(thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Salaries, wages and benefits	$ 4,570	$ 5,524
Non-cash compensation	782	753
Other corporate costs	2,663	2,583
Abandoned transaction costs	309	253
	8,324	9,113
Amounts capitalized to investment properties under development and redevelopment and deferred leasing costs	(2,398)	(2,485)
	$ 5,926	$ 6,628

The overall level of corporate expenses has remained relatively constant compared to the prior year despite an increase in the size of the shopping centre portfolio. The decrease in fourth quarter compensation expense compared to the same prior year period is due to timing of recognition of bonus compensation.

Non-cash compensation is recognized over the respective vesting periods for options, restricted share units and deferred share units. These items are considered part of the total compensation for directors, senior management, other team members and periodically to select service providers to the Company.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development and initial leasing of the properties, including salaries and related costs, are capitalized in accordance with IFRS to development projects, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to investment properties. Amounts capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects) during the three months ended December 31, 2011 totalled $2.4 million compared to $2.5 million in the prior year comparative period. Amounts capitalized are based on specific leasing activities and development projects underway.

Three months ended December 31			**2011**			2010
(thousands of dollars)	**Included in Consolidated Statements of Income**	**Included in FFO**	**Included in AFFO**	Included in Consolidated Statements of Income	Included in FFO	Included in AFFO
Realized gains on sale of marketable securities	$ 2,002	$ 2,002	$ 2,002	$ 2,074	$ 2,074	$ 2,074
Change in cumulative unrealized losses on marketable securities classified as FVTPL	(451)	(451)	—	(701)	(701)	—
Losses on settlement of debt	(12)	(12)	—	(160)	(160)	—
Loss on temporary change of conversion privilege of convertible debentures (a)	(984)	(984)	—	—	—	—
Unrealized (losses) gains on interest rate swaps	(73)	(385)	—	594	594	—
Loss on foreign currency exchange	(17)	(17)	(17)	(56)	(56)	(56)
Loss on disposition of investment properties	(32)	(32)	—	(8)	—	(8)
	$ 433	$ 121	$ 1,985	$ 1,743	$ 1,751	$ 2,010

(a) On November 22, 2011, the Company temporarily changed the conversion privilege of its 5.50% convertible unsecured subordinated debentures by reducing the conversion price from the original conversion price of $16.425 per common share, for a 35-day period, to induce early conversion into common shares by holders of the debentures. In accordance with *IAS 32 Financial Instruments: Presentation ("IAS 32")* the Company recognized an expense of approximately $1.0 million, calculated as the fair market value of the additional shares issuable under the conversion privilege due to the inducement. IAS 32 requires the expense to be calculated for all debentures to which the inducement was offered, notwithstanding certain holders elected not to convert in each instance.

	Three months ended	
(thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Deferred taxes	$ 43,186	$ 24,004

Deferred tax expense increased compared to 2010 primarily due to the increase in the fair value adjustment of investment properties.

Cash Flows

	Three months ended	
(thousands of Canadian dollars)	**December 31, 2011**	December 31, 2010
Cash provided by operating activities before net change in non-cash operating items and expenditures on residential inventory, net of financing	$ 38,738	$ 41,106
Net change in non-cash operating items	20,561	10,589
Expenditures on residential inventory, net of financings	(4,805)	(11,434)
Cash provided by operating activities	54,494	40,261
Cash provided by financing activities	97,996	32,481
Cash used in investing activities	(152,550)	(122,242)
Effect of currency rate movement	83	—
Increase (decrease) in cash and cash equivalents	$ 23	$ (49,500)

Operating Activities

Cash provided by operating activities increased in 2011 primarily from cash flow generated by growth in net operating income from the Company's shopping centre portfolio, increased use of financing to fund expenditures on residential inventory and by net changes in non-cash operating items.

Financing Activities

The cash flow provided by financing activities includes the issuance of convertible debentures, new mortgage financings (offset by mortgage principal instalment payments and payments on maturity) and draws on the Company's credit facilities offset by the repayment of unsecured debentures at maturity. The overall level of financing activity in 2011 is higher than the prior year period. These activities are fully described in the "Capital Structure and Liquidity" section of this MD&A.

Investing Activities

The Company continues to acquire properties and make significant investments in its portfolio. The overall level of investing activity in the fourth quarter of 2011 is higher than the prior year period. Details of the Company's investments in acquisitions and developments are provided under the "Business and Operations Review" section of this MD&A.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES

Summary of Critical Accounting Estimates

First Capital Realty's significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2011. Management believes the policies which are most subject to estimation and Management's judgement are those outlined below.

Fair Value

Fair value is defined as the amount at which an item can be bought or sold between independent, knowledgeable parties under no compulsion to act, as opposed to a forced or liquidation sale.

Quoted market prices in active markets are usually the best evidence of fair value when they are available. Market prices are usually available for marketable securities and other actively traded financial instruments owned by the Company. When quoted market prices are not available, estimates of fair value are based on the best information available, including comparable market data and other valuation techniques, including discounted cash flows and other models based on future cash flows.

Where the valuation method chosen is based on future cash flows, the Company would be required to make estimates that incorporate assumptions of economic conditions, local market conditions, the potential uses of assets and other factors.

As a result, the Company's determination of fair value could vary under differing circumstances and result in different calculations.

The most significant areas which are affected by fair value estimates in the Company's financial statements are:

- estimates of fair values of investment properties;
- valuation of financial instruments both for disclosure and measurement purposes; and
- valuation of stock options using the Binomial Method.

The method of determination of the fair value of investment properties is discussed in detail elsewhere in this MD&A under "Valuation of Investment Properties under IFRS".

Fair Value of Financial Instruments

The Company is required to determine the fair value of its mortgage debt, senior unsecured debentures, loans, mortgages and marketable securities and its convertible debentures. In determining the fair value of the Company's outstanding mortgages, Management uses internally developed models, which incorporate estimated market rates. In determining market rates, Management adds a credit spread to quoted rates on Canadian government bonds with similar maturity dates to the Company's mortgages. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value.

A 1% change in the interest rate used to determine the fair value of the mortgages payable would change the fair value of the mortgages payable by $51 million. Similarly, a 1% change in the interest rate used to determine the fair value of the senior unsecured debentures would change the fair value by $53 million. The fair value of the Company's convertible debentures is based on current trading prices.

Income Taxes

The Company exercises judgement in estimating deferred tax assets and liabilities. Income tax laws are potentially subject to different interpretations, and the income tax expense recorded by the Company reflects the Company's interpretation of the relevant tax laws. The Company is also required to estimate the timing of reversals of temporary differences between accounting and taxable income in determining the appropriate rate to apply in calculating deferred taxes.

FUTURE ACCOUNTING POLICY CHANGES

Refer to Note 4 of the Consolidated Financial Statements for the year ended December 31, 2011 for details on future accounting policy changes.

Leases

In August 2010, the International Accounting Standards Board ("IASB") issued Exposure Draft – *Leases* to replace the current International Accounting Standard 17 – *Leases*. This Exposure Draft may significantly impact the accounting of leases under IFRS and was open for public comment until December 2010. There is currently no estimated date for adoption. As the Company has elected to carry its investment properties at fair value, it is not currently expected that the Exposure Draft in its present form will have a significant impact on the Company. Management will continue to monitor the progress of this Exposure Draft, as well as other amendments to IFRS standards affecting the Company.

CONTROLS AND PROCEDURES

As at December 31, 2011, the Chief Executive Officer and the Chief Financial Officer of the Company, with the assistance of other Company Management and staff to the extent deemed necessary, have designed First Capital Realty's disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In the design of its internal controls over financial reporting, First Capital Realty used the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework").

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their supervision, the effectiveness of the Company's disclosure controls and procedures and its internal controls over financial reporting (each as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2011, and have concluded that such disclosure controls and procedures and internal controls over financial reporting were operating effectively.

The Company did not make any changes in its internal controls over financial reporting during the quarter ended December 31, 2011 that have had, or are reasonably likely to have, a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure controls and procedures or internal controls over financial reporting occur and/or mistakes happen, the Company intends to take the necessary steps to minimize the consequences thereof.

RISKS AND UNCERTAINTIES

First Capital Realty, as an owner of income-producing properties and development properties, is exposed to numerous business risks in the normal course of its business that can impact both short- and long-term performance. Income-producing and development properties are affected by general economic conditions and local market conditions such as oversupply of similar properties or a reduction in tenant demand. It is the responsibility of Management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk the Company encounters in conducting its business and the manner in which it takes action to minimize the impact of these risks are outlined below. The Company's current Annual Information Form provides a more detailed discussion of these and other risks and can be found on SEDAR at www.sedar.com and the Company's website at www.firstcapitalrealty.ca.

Economic Conditions and Ownership of Real Estate

Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long-term mortgage financings and fluctuations in interest rates) and in local market conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other real estate developers, managers and owners in seeking tenants, the ability of the owner to provide adequate maintenance at an economic cost, and various other factors. The economic conditions in the markets in which the Company operates can also have a significant impact on the Company's tenants and, in turn, the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants.

The Company's portfolio has major concentrations in Quebec, Ontario, Alberta and British Columbia. Moreover, within each of these provinces, the Company's portfolio is concentrated predominantly in selected urban markets. As a result, economic and real estate conditions in these regions will significantly affect the Company's revenues and the value of its properties.

Revenue from the Company's properties depends primarily on the ability of the Company's tenants to pay the full amount of rent and other charges due under their leases on a timely basis. Leases comprise any agreements relating to the occupancy or use of the Company's real property. There can be no assurance that tenants and other parties will be willing or able to perform their obligations under any such leases. If a significant tenant or a number of smaller tenants were to become unable or unwilling to meet their obligations to the Company, the Company's financial condition and results of operations would be adversely affected. In the event of default by a tenant, the Company may experience delays and unexpected costs in enforcing its rights as landlord under lease terms, which may also adversely affect the Company's financial condition and results of operations.

In addition, the value of real property and any improvements may depend on the success of its tenants' operations as well as their credit and financial stability. Anchor tenants generally occupy large amounts of square footage, pay a significant portion of the total rents at a property and contribute to the success of other tenants by drawing significant numbers of customers to a property. The closing of one or more anchor stores at a property could have a significant adverse effect on that property. The Company's financial position and results of operations would be adversely affected if tenants become unable to pay rent or other charges on a timely basis or if the Company is unable to lease a significant amount of available space in its properties on economically favourable terms.

Real property investments are relatively illiquid and generally cannot be sold quickly. This illiquidity will likely limit the ability of the Company to vary its portfolio promptly in response to changed economic or investment conditions. The Company's inability to respond quickly to changes in the performance of its investments could adversely affect its ability to meet its obligations, its financial condition and its results of operations.

Financing, Interest Rates, Repayment of Indebtedness and Access to Capital

The Company has outstanding indebtedness in the form of mortgages, loans, credit facilities, senior unsecured debentures and convertible debentures and, as such, is subject to the risks normally associated with debt financing, including the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest.

Debt service obligations reduce the funds available for operations, acquisitions, development activities and other business opportunities. There is a possibility that the Company's internally generated cash may not be sufficient to repay all of its outstanding indebtedness. Upon the expiry of the term of the financing on any particular property owned by the Company, refinancing on a conventional mortgage loan basis may not be available in the amount required or may be available only on terms less favourable to the Company than the existing financing. The Company may elect to repay certain indebtedness through the issuance of equity securities or the sale of assets, where appropriate.

Interest rates have a significant effect on the profitability of commercial properties as interest represents a significant cost in the ownership of real property where debt financing is used as a source of capital. The Company has a total of $1.1 billion (December 31, 2010 – $790.7 million) principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between December 31, 2011 and December 31, 2014 at a weighted average coupon interest rate of 5.86% (December 31, 2010 – 5.81%). If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would respectively increase or decrease by $11.3 million (December 31, 2010 – $7.9 million). In addition, at December 31, 2011, the Company had $188.1 million principal amount of debt (or 6.0% of the Company's aggregate debt as of such date) at floating interest rates.

The Company seeks to reduce its interest rate risk by staggering the maturities of long term debt and limiting the use of floating rate debt so as to minimize exposure to interest rate fluctuations. Moreover, from time to time the Company may enter into interest rate swap transactions to modify the interest rate profile of its current or future variable rate debts without an exchange of the underlying principal amount.

Changes to Credit Ratings

Any credit rating that is assigned to the Senior Unsecured Debentures may not remain in effect for any given period of time or may be lowered, withdrawn or revised by one or more of the rating agencies if, in their judgement, circumstances so warrant. See "Corporate Structure – Credit Ratings". Any lowering, withdrawal or revision of a credit rating may have an adverse effect on the market price of the Senior Unsecured Debentures, may affect a debentureholder's ability to sell its Senior Unsecured Debentures and may affect the Company's access to financial markets and its cost of borrowing.

Lease Renewals and Rental Increases

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. Expiries of certain leases will occur in both the short and long term, including expiry of leases of certain significant tenants, and although certain lease renewals and/or rental increases are expected to occur in the future, there can be no assurance that such renewals or rental increases will in fact occur. The failure to achieve renewals and/or rental increases may have an adverse effect on the financial condition and results of operations of the Company. In addition, the terms of any subsequent lease may be less favourable to the Company than the existing lease.

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and effectiveness of its Management team and the opportunities which the market presents.

The Company competes for suitable real property investments with individuals, corporations, real estate investment companies, trusts and other institutions (both Canadian and foreign) which may seek real property investments similar to those desired by the Company. Many of these investors may also have financial resources, which are comparable to, or greater than, those of the Company. An increase in the availability of investment funds, and an increase of interest in real property investments, increases competition for real property investments, thereby increasing purchase prices and reducing the yield therefrom.

Increased competition in the real estate market leads to lower capitalization rates for new acquisitions in certain of the markets in which the Company operates. Lower capitalization rates mean a smaller spread between the Company's cost of capital and return on acquisitions and may therefore have a negative impact on the Company's earnings growth.

The Company's acquisition and investment strategy and market selection process may not ultimately be successful and may not provide positive returns on investment. The acquisition of properties or portfolios of properties entails risks that include the following, any of which could adversely affect the Company's financial condition and results of operations and its ability to meet its obligations: (i) the Company may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties identified; (ii) the Company may not be able to successfully integrate any acquisitions into its existing operations; (iii) properties acquired may fail to achieve the occupancy or rental rates projected at the time of the acquisition decision, which may result in the properties' failure to achieve the returns projected; (iv) the Company's pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs, which could significantly increase the Company's total acquisition costs; and (v) the Company's investigation of a property or building prior to acquisition, and any representations it may receive from the seller of such building or property, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase its acquisition cost.

Further, the Company's development and redevelopment commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseeable delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; (iv) the inability to achieve projected rental rates or anticipated pace of lease-ups and (v) increase in interest rates during the life of the development or redevelopment.

The Company's redevelopment and intensification activities are focussed primarily on increasing retail space on a property and to a lesser degree, adding mixed use density, including residential projects and office uses. Residential property development and redevelopment is a relatively new line of business for the Company. As a result, development risks associated with such projects may be greater due to the Company's more limited experience in this area.

Where the Company's development commitments relate to properties intended for sale, such as the residential portion of certain projects, the Company is also subject to the risk that purchasers of such properties may become unable or unwilling to meet their obligations to the Company or that the Company may not be able to close the sale of a significant number of units in a development project on economically favourable terms.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of retail properties compete with the Company in seeking tenants. Some of the properties located in the same markets as the Company's properties may be newer, better located and/or have stronger anchor tenants than the Company's properties. The existence of developers, managers and owners in such markets and competition for the Company's tenants could adversely affect the Company's ability to lease space in its properties in such markets and on the rents charged or concessions granted. In addition, the internet and other technologies may play a more significant role in consumer preferences and shopping patterns in the future, which could present a competitive risk to the Company that is not easily assessed at this time. Any of the aforementioned factors could have an adverse effect on the Company's financial condition and results of operations.

Financial Covenants

First Capital Realty's revolving credit facilities and its outstanding senior unsecured debentures contain customary covenants and conditions, including, among others, compliance with various financial ratios and restrictions upon the incurrence of additional indebtedness and liens on the Company's properties. Furthermore, the terms of some of this indebtedness may adversely affect the Company's ability to consummate transactions that result in a change of control. The existing mortgages also contain customary negative covenants such as those that limit the Company's ability, without the prior consent of the lender, to further mortgage the applicable property. If the Company were to breach covenants in these debt agreements, the lender could declare a default and require the Company to repay the debt immediately. If the Company fails to make such repayment in a timely manner, the lender may be entitled to take possession of any property securing the loan. If the lenders declared a default under the Company's revolving credit facilities, all amounts outstanding thereunder would become due and payable and the Company's ability to borrow in future periods could be restricted. In addition, any such default or indebtedness in excess of an agreed amount, unless waived, would constitute a default under First Capital Realty's revolving credit facilities and senior unsecured debentures, giving rise to the acceleration of such indebtedness.

Environmental Matters

The Company maintains comprehensive environmental insurance and conducts environmental due diligence upon the acquisition of new properties. There is, however, a risk that the value of any given property in the Company's portfolio could be adversely affected as a result of unforeseen or uninsured environmental matters or changes in governmental regulations.

Under various federal, provincial and local laws, the Company, as an owner, and potentially as a person in control of or managing real property, could potentially be liable for costs of investigation, remediation and monitoring of certain contaminants, hazardous or toxic substances present at or released from its properties or disposed of at other locations, whether the Company knows of, or is responsible for, the environmental contamination and whether the contamination occurred before or after the Company acquired the property. The costs of investigation, removal or remediation of hazardous or toxic substances are not estimable, may be substantial and could adversely affect the Company's results of operations or financial condition. The presence of contamination or the failure to remediate such substances, if any, may adversely affect the Company's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims, including proceedings by government regulators or third party lawsuits. Environmental legislation can change rapidly and the Company may become subject to more stringent environmental laws in the future, and compliance with more stringent environmental laws, or increased enforcement of the same, could have a material adverse effect on its business, financial condition or results of operations.

Joint Ventures

Some of First Capital Realty's properties are partially owned by non-affiliated partners through partnership, co-ownership and limited liability corporate venture arrangements (collectively, "joint ventures"). As a result, the Company does not control all decisions regarding those properties and may be required to take actions that are in the interest of the joint venture partners collectively, but not in the Company's sole best interests. Accordingly, First Capital Realty may not be able to favourably resolve any issues that arise with respect to such decisions, or the Company may have to take legal action or provide financial or other inducements to joint venture partners to obtain such resolution.

Investments Subject to Credit and Market Risk

The Company occasionally extends credit to third parties in connection with joint ventures, the sale of assets or other transactions. First Capital Realty also invests in marketable and other equity securities. The Company is exposed to risk in the event that the values of its loans and/or its investments decrease due to overall market conditions, business failure, and/or other nonperformance by the counterparties or investees.

As of December 31, 2011, Chaim Katzman, the Chairman of the board of directors of First Capital Realty, and several of the Company's shareholders affiliated with Mr. Katzman (the "Gazit Group"), including Gazit-Globe, Ltd. ("Gazit-Globe") and related entities, beneficially owned approximately 50.5% of the outstanding common shares of the Company. Gazit-Globe is a public company listed on the New York Stock Exchange and on the Tel-Aviv Stock Exchange. Additional information concerning Gazit-Globe is available in its public disclosure. Dori J. Segal, the Vice-Chairman, President and Chief Executive Officer of First Capital Realty, is Executive Vice Chairman of Gazit-Globe and owns shares of Gazit-Globe and of the holding company which indirectly controls Gazit-Globe. In addition, as of December 31, 2011, Alony-Hetz Properties and Investments Ltd. beneficially owned approximately 11.6% of the common shares of the Company.

The market price of the common shares could decline materially if the Company's significant shareholders sell some or all of their common shares or are perceived by the market as intending to sell such common shares. In addition, so long as the Gazit Group maintains a controlling interest in the Company, it will generally be able to approve any matter submitted to a vote of shareholders of the Company which requires the approval of a simple majority of shareholders voting at the meeting, including, among other things, the election of the Board. The Gazit Group will also be able to exercise a controlling influence in the event of a take-over bid for First Capital Realty. This level of ownership may discourage third parties from seeking to acquire control of the Company, which in turn may adversely affect the market price of the common shares.

Moreover, members of the Gazit Group have pledged a substantial portion of their common shares to secure revolving credit facilities made available to them by commercial banks (the "Gazit Group Credit Facilities"). Based on information from the Gazit Group, First Capital Realty believes that currently approximately 76% of the common shares reported as beneficially owned by the Gazit Group (representing approximately 38% of the outstanding common shares of First Capital Realty) are pledged to secure the Gazit Group Credit Facilities. While First Capital Realty has not been provided with a copy of the Gazit Group Credit Facilities or the related pledge agreements, it has been advised by the Gazit Group that if one of the Gazit Group members defaults on any of their obligations under the Gazit Group Credit Facilities or the related pledge agreements, the related lenders may have certain rights over the pledged common shares, including without limitation, the right to sell the pledged common shares in one or more public or private sales. Any such event could cause the Company's common share price (and the price of other securities convertible into common shares, including the Company's convertible debentures) to decline materially. Many of the occurrences that could result in a default under the Gazit Group Credit Facilities and, among other things, foreclosure of the pledged common shares are out of First Capital Realty's control and are unrelated to its operations.

In addition, because a significant number of common shares are pledged to secure the Gazit Group Credit Facilities, the occurrence of an event of default could result in a sale of such pledged common shares that would trigger a change of control of First Capital Realty, even when such a change may not be in the best interests of the shareholders of the Company or may have a material adverse effect on the Company. In the case of the Company's outstanding debentures, a change of control could result in a mandatory repurchase by the Company of such debentures, and in the case of the Company's credit facilities, a change of control may be an event of default thereunder. The foregoing information has been provided by the Gazit Group and has not been independently verified. There can be no assurances that such information is complete, and as such there may be additional relevant information not included in the foregoing.

Management's Responsibility

The accompanying consolidated financial statements and Management's Discussion and Analysis ("MD&A") are the responsibility of Management and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of financial statements and MD&A necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In addition, in preparing this financial information Management must make determinations as to the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 8, 2012.

Management is also responsible for the maintenance of financial and operating systems which include effective controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are properly authorized and recorded, and that reliable financial information is produced. PricewaterhouseCoopers LLP has been engaged to assist Management and the Audit Committee in planning and conducting its annual internal audit plan.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities through its Audit Committee, which is comprised of independent directors who are not involved in the day-to-day operations of the Company. Each quarter the Audit Committee meets with Management and, as necessary, with the independent auditors, Deloitte & Touche LLP, to satisfy itself that Management's responsibilities are properly discharged and to review and report to the Board on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditors conduct an examination each year in order to express a professional opinion on the consolidated financial statements.

Independent Auditor's Report

To the Shareholders of First Capital Realty Inc.

We have audited the accompanying consolidated financial statements of First Capital Realty Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First Capital Realty Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Toronto, Ontario
March 8, 2012

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

(thousands of Canadian dollars)	Note	**December 31 2011**	December 31 2010	January 1 2010
			(note 3)	*(note 3)*
ASSETS				
Non-Current Assets				
Real Estate Investments				
Investment properties – shopping centres	5	$ 5,714,614	$ 4,734,574	$ 4,113,466
Investment properties – development land	5	100,845	88,859	64,106
Loans, mortgages and other real estate assets	6	46,422	62,010	53,176
Total real estate investments		5,861,881	4,885,443	4,230,748
Other non-current assets	9	16,153	12,619	13,937
Total non-current assets		5,878,034	4,898,062	4,244,685
Current Assets				
Cash and cash equivalents	25(d)	3,075	31,735	4,548
Loans, mortgages and other real estate assets	7	80,438	30,832	7,210
Amounts receivable	8	14,393	10,030	13,793
Other assets	9	38,530	17,358	14,789
		136,436	89,955	40,340
Shopping centres classified as held for sale	5	96,674	—	—
Total current assets		233,110	89,955	40,340
Total assets		$ 6,111,144	$ 4,988,017	$ 4,285,025
LIABILITIES				
Non-Current Liabilities				
Mortgages and credit facilities	11	$ 1,399,230	$ 1,222,400	$ 1,201,104
Senior unsecured debentures	12	1,140,594	915,232	717,040
Convertible debentures	13	263,500	324,535	329,739
Other liabilities	14	11,848	9,721	6,321
Deferred tax liabilities	21	368,526	235,687	154,548
Total non-current liabilities		3,183,698	2,707,575	2,408,752
Current Liabilities				
Current portion of mortgages and credit facilities	11	184,938	95,941	153,564
Current portion of senior unsecured debentures	12	100,000	198,799	—
Current portion of convertible debentures	13	18,828	—	—
Accounts payable and other liabilities	15	191,477	149,199	136,342
Total current liabilities		495,243	443,939	289,906
Total liabilities		3,678,941	3,151,514	2,698,658
EQUITY				
Shareholders' equity	16	2,421,728	1,832,597	1,586,367
Non-controlling interests		10,475	3,906	—
Total equity		2,432,203	1,836,503	1,586,367
Total liabilities and equity		$ 6,111,144	$ 4,988,017	$ 4,285,025

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

Chaim Katzman
Chairman of the Board

Dori J. Segal
Director

Consolidated Statements of Income

(thousands of Canadian dollars, except per share amounts)	Note	Year ended December 31 **2011**	2010 *(note 3)*
Net operating income			
Property rental revenue		$ 526,735	$ 482,475
Property operating costs		186,647	168,460
Net operating income	17	340,088	314,015
Interest and other income	18	7,484	5,020
		347,572	319,035
Interest expense	19	159,981	145,655
Corporate expenses and amortization		25,167	24,972
		185,148	170,627
Income before increase in value of investment properties, net, other gains (losses) and (expenses) and income taxes		162,424	148,408
Increase in value of investment properties, net	5	466,214	178,078
Other gains (losses) and (expenses)	20	(810)	4,332
		627,828	330,818
Deferred income taxes	21	126,177	81,321
Net income		$ 501,651	$ 249,497
Net income attributable to:			
Common shareholders		$ 501,622	$ 249,497
Non-controlling interests		29	—
		$ 501,651	$ 249,497
Net income per share attributable to common shareholders:			
Basic	22	$ 2.99	$ 1.57
Diluted	22	$ 2.75	$ 1.47

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(thousands of Canadian dollars)	Note	Year ended December 31 **2011**	2010 *(note 3)*
Net Income		$ 501,651	$ 249,497
Other comprehensive (loss) income			
Unrealized gains on available-for-sale marketable securities		580	3,144
Reclassification of gains on available-for-sale marketable securities to net income		(2,306)	(1,571)
Unrealized losses on cash flow hedges		(4,133)	—
		(5,859)	1,573
Deferred tax (recovery) expense	24(a)	(1,334)	252
Other comprehensive (loss) income	24(a)	(4,525)	1,321
Comprehensive income		$ 497,126	$ 250,818
Comprehensive income attributable to:			
Common shareholders		$ 497,097	$ 250,818
Non-controlling interests		29	—
		$ 497,126	$ 250,818

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Contributed Surplus and Other Equity Items	**Total Shareholders' Equity**	Non-Controlling Interests	**Total Equity**
		(note 24 (b))	*(note 16(a))*	*(note 16(b))*			
December 31, 2010 (note 3)	$ 89,182	$ 2,239	$1,689,516	$ 51,660	$1,832,597	$ 3,906	$1,836,503
Changes during the year:							
Net income	501,622	—	—	—	501,622	29	501,651
Issuance of common shares	—	—	1,248	—	1,248	—	1,248
Dividends	(136,186)	—	—	—	(136,186)	—	(136,186)
Payment of interest on convertible debentures	—	—	19,797	—	19,797	—	19,797
Equity component on issuance of convertible debentures	—	—	—	3,781	3,781	—	3,781
Conversion of convertible debentures to common shares	—	—	206,711	(14,250)	192,461	—	192,461
Purchase of convertible debentures	—	—	—	(49)	(49)	—	(49)
Options vested	—	—	—	1,297	1,297	—	1,297
Exercise of options	—	—	9,648	(674)	8,974	—	8,974
Deferred share units vested	—	—	—	747	747	—	747
Restricted share units vested	—	—	—	1,680	1,680	—	1,680
Restricted share units exercised	—	—	—	(2,054)	(2,054)	—	(2,054)
Issue costs, net of tax and other	—	—	1,663	—	1,663	—	1,663
Other adjustments	—	—	—	(1,325)	(1,325)	—	(1,325)
Other comprehensive loss	—	(4,525)	—	—	(4,525)	—	(4,525)
Contributions from non-controlling interests	—	—	—	—	—	6,540	6,540
December 31, 2011	$ 454,618	$ (2,286)	$1,928,583	$ 40,813	$2,421,728	$ 10,475	$2,432,203

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Share Capital	Contributed Surplus and Other Equity Items	**Total Shareholders' Equity**	Non-Controlling Interests	**Total Equity**
		(note 24 (b))	*(note 16(a))*	*(note 16(b))*			
January 1, 2010 (note 3)	$ (32,547)	$ 918	$1,564,028	$ 53,968	$1,586,367	$ —	$1,586,367
Changes during the year:							
Net income	249,497	—	—	—	249,497	—	249,497
Issuance of common shares	—	—	55,765	—	55,765	—	55,765
Dividends	(127,768)	—	—	—	(127,768)	—	(127,768)
Payment of interest on convertible debentures	—	—	19,275	—	19,275	—	19,275
Purchase of convertible debentures	—	—	—	(330)	(330)	—	(330)
Exercise of warrants	—	—	42,096	(1,808)	40,288	—	40,288
Options vested	—	—	—	1,032	1,032	—	1,032
Exercise of options	—	—	9,735	(580)	9,155	—	9,155
Deferred share units vested	—	—	—	659	659	—	659
Restricted share units vested	—	—	—	1,733	1,733	—	1,733
Exercise of restricted share units	—	—	—	(3,014)	(3,014)	—	(3,014)
Issue costs, net of tax	—	—	(1,383)	—	(1,383)	—	(1,383)
Other comprehensive income	—	1,321	—	—	1,321	—	1,321
Contributions from non-controlling interests	—	—	—	—	—	3,906	3,906
December 31, 2010	$ 89,182	$ 2,239	$1,689,516	$ 51,660	$1,832,597	$ 3,906	$1,836,503

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	Note	Year ended December 31 2011	2010 (note 3)
CASH FLOW PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net income		$ 501,651	$ 249,497
Adjustments for:			
Increase in value of investment properties, net	5	(466,214)	(178,078)
Interest expense	19	159,981	145,655
Capitalized interest	19	18,449	14,199
Cash interest paid	19	(151,713)	(132,315)
Amortization		3,936	3,530
Other items not affecting cash	25(a)	119,172	67,718
Deferred leasing costs		(6,013)	(5,978)
Cash flow from operating activities before net change in non-cash operating items and expenditures on residential development inventories, net of financing		179,249	164,228
Net change in non-cash operating items	25(b)	(9,280)	10,903
Expenditures on residential development inventories		(17,013)	(15,805)
Mortgage financings and loans on residential development inventories		16,664	3,058
Cash provided by operating activities		169,620	162,384
FINANCING ACTIVITIES			
Mortgage financings and credit facilities			
Borrowings, net of financing costs		333,963	160,473
Principal instalment payments		(36,576)	(35,084)
Repayments on maturity		(160,038)	(243,295)
Issuance of senior unsecured debentures,net of issue costs	12	323,798	395,634
Repayment of senior unsecured debentures on maturity		(198,799)	—
Issuance of convertible debentures, net of issue costs	13	158,725	(60)
Purchase of convertible debentures	13	(2,067)	(8,570)
Issuance of common shares, net of issue costs		10,274	103,327
Payment of dividends		(132,683)	(125,263)
Contributions from non-controlling interests		6,540	3,906
Other financing activities		—	(55)
Cash provided by financing activities		303,137	251,013
INVESTING ACTIVITIES			
Acquisition of shopping centres	5	(290,513)	(195,957)
Acquisition of development land	5	(29,780)	(29,944)
Net proceeds from property dispositions		46,236	12,644
Expenditures on investment properties		(221,372)	(144,665)
Changes in working capital items related to investing activities		5,426	(6,342)
Changes in loans, mortgages and other real estate assets	25(c)	(11,497)	(21,946)
Cash used in investing activities		(501,500)	(386,210)
Effect of currency rate movement on cash balances		83	—
(Decrease) increase in cash and cash equivalents		(28,660)	27,187
Cash and cash equivalents, beginning of the year		31,735	4,548
Cash and cash equivalents, end of the year	25(d)	$ 3,075	$ 31,735

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

First Capital Realty Inc. (the "Company") is incorporated under the laws of Ontario and engages in the business of acquiring, developing, redeveloping, owning and operating neighbourhood and community shopping centres. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "FCR", and its head office is located at 85 Hanna Avenue, Suite 400, Toronto, Ontario, M6K 3S3.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Effective January 1, 2010, the Company adopted IFRS in accordance with IFRS 1, First Time Adoption of Financial Reporting Standards ("IFRS 1"), as discussed in Note 3.

(b) Basis of presentation

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The accounting policies set out below have been applied consistently in all material respects. Changes in standards effective for future accounting periods are described in Note 4 – "Future Accounting Policy Changes".

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The Company contractually controls certain subsidiaries of which it owns between 40% to 67% until such time that all loans and mortgages receivable from the subsidiaries on development properties have been paid in full. Non-controlling interests in the equity and the results of these subsidiaries are shown separately in equity in the consolidated balance sheet.

(d) Investments in joint ventures

A joint venture is a contractual arrangement pursuant to which the Company and other parties undertake an economic activity that is subject to joint control. Joint control exists when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties subject to the contractual arrangement.

When the Company undertakes its activities under a joint venture arrangement through a direct interest in the joint venture's assets, rather than through the establishment of a separate entity, the Company proportionately recognizes its share of the assets, liabilities, revenue and expenses directly in the consolidated financial statements. Joint venture arrangements that involve the establishment of a separate entity (such as a corporation or a partnership) in which each venturer has an interest are considered jointly controlled entities. The Company reports its interests in jointly controlled entities also using proportionate consolidation.

(e) Investment properties

Investment properties consist of shopping centres and development land that are held to earn rental income or for capital appreciation, or both. Investment properties also include properties that are being constructed or developed for future use, as well as ground leases to which the Company is the lessee. The Company classifies its investment properties on its balance sheet as follows:

a) Shopping centres – which include the Company's shopping centre portfolio, properties currently under development or redevelopment, and any adjacent land parcels available for expansion but not currently under development; and
b) Development land – which includes land parcels which are not part of one of the Company's existing shopping centres and which are at various stages of development planning, primarily for future retail occupancy.

Investment properties are recorded at fair value, which reflects current market conditions, at each balance sheet date. Gains and losses from changes in fair values are recorded in net income in the period in which they arise.

The determination of fair values requires appraisers and Management to make estimates and assumptions that affect the values presented, such that actual values in a sales transaction may differ from those presented.

The fair value of investment properties is determined at each balance sheet date using both internal and independent, external appraisals performed by nationally-recognized appraisal firms. Management considers property size, levels of redevelopment and leasing activity, local market conditions, geography and other factors when deciding which properties are appraised externally. Each property whose cost exceeds $50 million is externally appraised at least once every six quarters; all other properties are externally appraised at least once every three years.

All appraisals comply with the International Valuations Standard and with the requirements of IAS 40 – Investment Property; no estimates are made for any potential portfolio premiums or for value attributable to the Company's management platform. External appraisals conform to applicable professional standards.

Shopping centres valuation method

Shopping centres are appraised primarily using the income approach, since purchasers typically focus on expected income. External appraisals conduct and place reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition). Internal appraisals use the direct capitalization method.

Properties that are not development or redevelopment properties are valued based on stabilized cash flows from existing tenants with the property in its existing state. Properties undergoing development, redevelopment or expansion are valued using the stabilized cash flows expected upon completion, with a deduction for costs to complete the project; capitalization rates are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land.

The primary method of appraisal for development land is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets to estimate a value per acre. Such values are applied to the Company's properties after adjusting for factors specific to the site, including its zoning, servicing and location.

The cost of development properties includes direct development costs, realty taxes and borrowing costs attributable to the development. Borrowing costs associated with expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on land or properties acquired specifically for development or redevelopment when activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings.

Capitalization of borrowing costs and all other costs commences when the activities necessary to prepare an asset for development or redevelopment begin, and continue until the date that construction is complete and all necessary occupancy and related permits have been received, whether or not the space is leased. If the Company is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of costs continues until such improvements are completed. Capitalization ceases if there are prolonged periods when development activity is interrupted.

Acquisition costs (legal expenses, land transfer tax, and similar) are capitalized for investment property acquisitions. The Company may determine that a particular investment property acquisition constitutes a business combination, which would result in acquisition costs being expensed. Factors that would be considered by Management include whether the acquisition is a portfolio, or whether significant ancillary systems or assets are acquired with the property.

Initial direct leasing costs incurred by the Company in negotiating and arranging tenant leases are added to the cost of investment properties.

Investment property is classified as assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property, and its sale must be highly probable. Upon designation as held for sale, the investment property continues to be measured at fair value and is presented separately on the consolidated balance sheet.

(f) Residential development inventories

Residential development inventories (those that are developed for sale) are recorded at the lower of cost and estimated net realizable value. Residential development inventories are reviewed for impairment at each reporting date. An impairment loss is recognized in net income when the carrying value of the property exceeds its net realizable value. Net realizable value is based on projections of future cash flows which take into account the development plans for each project and Management's best estimate of the most probable set of anticipated economic conditions.

The cost of residential development inventories includes borrowing costs directly attributable to projects under active development. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average capitalization rate for the Company's other borrowings to eligible expenditures. Borrowing costs are not capitalized on residential developments where no development activity is taking place.

Residential development inventories are presented on the consolidated balance sheet as current assets in loans, mortgages and other real estate assets. They are classified as current because the Company intends to sell them in the normal operating cycle.

Current income tax assets and liabilities are measured at the amount expected to be received from or paid to tax authorities based on the tax rates and laws enacted or substantively enacted at the consolidated balance sheet date.

Deferred tax liabilities are measured by applying the appropriate tax rate to temporary differences between the carrying amounts of assets and liabilities, and their respective tax bases. The appropriate tax rate is determined by reference to the rates that are expected to apply to the year and the jurisdiction in which the assets are expected to be realized or the liabilities settled.

Deferred tax assets are recorded for all deductible temporary differences, carry forwards 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. Deferred tax assets are only recorded to the extent it is probable that the income tax asset will be recovered.

Current and deferred income taxes relating to items recognized in equity are charged directly to equity.

(h) Provisions

A provision is a liability of uncertain timing or amount. The Company records provisions, including asset retirement obligations, when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each consolidated balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

(i) Foreign currencies

The financial statements are presented in Canadian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into Canadian dollars using exchange rates applicable to each transaction at the time it occurs. At each consolidated balance sheet date, foreign currency-denominated monetary assets and liabilities are translated to Canadian dollars using the exchange rate prevailing at the consolidated balance sheet date. Gains and losses on translation of monetary items are recognized in the statement of income in other gains (losses) and (expenses).

(j) Share-based payments

Equity-settled share-based compensation, including stock options, restricted share units and deferred share units, is measured at the fair value of the grants on the grant date. The fair value of options is estimated using an accepted option pricing model, as appropriate to the instrument. The cost of equity settled share-based compensation is recognized on a proportionate basis consistent with the vesting features of each grant.

(k) Revenue recognition

(i) Investment properties

The Company retains substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Revenue recognition under a lease commences when the tenant has a right to use the leased asset, which is typically when the space is turned over to the tenant to begin fixturing. Where the Company is required to make additions to the property in the form of tenant improvements which enhance the value of the property, revenue recognition begins upon substantial completion of those improvements.

The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease, including any fixturing period. A receivable, which is included in the carrying amount of investment property, is recorded for the difference between the straight-line rental revenue recorded and the contractual amount received.

Rental revenue also includes percentage participating rents based on tenant sales, and recoveries of operating expenses and property taxes. Percentage participating rents are recognized when the sales thresholds set out in the leases have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(ii) Residential developments

The Company's residential density business comprises the construction and sale of residential condominium units. The Company will recognize revenue from the sale of residential units on transfer of legal title of the unit to the purchaser. The Company considers the transfer of legal title to be the point where the significant risks and rewards of ownership have been conveyed to the purchaser, the Company no longer has any significant involvement in the unit, it is probable that the economic benefits of the sale will flow to the Company, and the revenue and costs associated with the sale can be reliably measured.

(l) Financial instruments and derivatives

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), available-for-sale ("AFS"), held-to-maturity, loans and receivables or other liabilities.

Derivative instruments are recorded in the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract.

The Company enters into forward contracts and interest rate swaps to hedge its risks associated with interest rates. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair values are negative. Hedge accounting is discontinued prospectively when the hedging relationship is terminated, when the instrument no longer qualifies as a hedge, or when the hedging item is sold or terminated. In cash flow hedging relationships, the portion of the change in the fair value of the hedging derivative that is considered to be effective is recognized in Other Comprehensive Income ("OCI") while the portion considered to be ineffective is recognized in net income. Unrealized hedging gains and losses in accumulated other comprehensive income ("AOCI") are reclassified to net income in the periods when the hedged item affects net income. Gains and losses on derivatives are immediately reclassified to net income when the hedged item is sold or terminated or when it is determined a hedged forecasted transaction is no longer probable.

Changes in the fair value of derivative instruments, including embedded derivatives, that are not designated as hedges for accounting purposes, are recognized in other gains (losses) and (expenses).

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

	Classification	Measurement
Financial assets		
Non-current financial assets		
Marketable securities designated as AFS	AFS	Fair value
Derivative assets	FVTPL	Fair value
Receivables and other assets		
Marketable securities designated as FVTPL	FVTPL	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Loans and mortgages receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Financial liabilities		
Mortgages payable	Other liabilities	Amortized cost
Amounts outstanding under credit facilities	Other liabilities	Amortized cost
Senior unsecured debentures	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Derivative liabilities	FVTPL	Fair value

In determining fair values, the Company evaluates counterparty credit risks and makes adjustments to fair values and credit spreads based upon changes in these risks.

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

(i) Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The Company's investments in equity securities are measured using Level 1 inputs;

(ii) Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The Company's derivative assets and liabilities and its written loan receivable option are measured using Level 2 inputs; and

(iii) Level 3 Inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data). The Company does not have financial assets or liabilities measured using Level 3 inputs.

(m) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

(n) Operating segments

Management, in measuring the Company's performance or making operating decisions, distinguishes its operations on a geographical basis. The Company operates in Canada and has three operating segments: Eastern which includes operations primarily in Quebec, with one property each in Nova Scotia and Newfoundland; Central which includes the Company's Ontario operations; and Western which includes operations in Alberta and British Columbia. Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker, who is the President and Chief Executive Officer.

(o) Critical judgements in applying accounting policies

The following are the critical judgements that have been made in applying the Company's accounting policies and that have the most significant effect on the amounts in the financial statements:

(i) Investment properties

In applying the Company's policy with respect to investment properties, judgement is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which capitalization of borrowing and other costs ceases. Judgement is also applied in determining the extent and frequency of independent appraisals in order to estimate fair values.

(ii) Financial instruments

The critical judgements inherent in the application of the policies with respect to financial instruments include applying the criteria to designate financial instruments as FVTPL.

(iii) Hedge accounting

Where the Company undertakes to apply cash flow hedge accounting, it must determine whether the transaction is highly probable at inception and throughout the duration of the hedge relationship.

(iv) Income taxes

The Company exercises judgement in estimating deferred tax assets and liabilities. Income tax laws may be subject to different interpretations, and the income tax expense recorded by the Company reflects the Company's interpretation of the relevant tax laws. The Company is also required to estimate the timing of reversals of temporary differences between accounting and taxable income in determining the appropriate rate to apply in calculating deferred taxes.

(v) Key management personnel

Judgement has been made in identifying the key management personnel for purposes of compensation disclosure. The Company considers those with the authority and responsibility for planning, directing and controlling the activities of the Company to be the board of directors and certain members of senior Management.

(p) Critical accounting estimates and assumptions

The Company makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ from estimates. The estimates and assumptions that the Company considers critical include those underlying the valuation of investment properties, as set out in Note 2(e), which describes the process by which investment properties are valued, and the determination of which properties are externally appraised and how often.

Additional critical accounting estimates and assumptions include those used for determining the values of financial instruments for disclosure purposes, estimating deferred taxes, allocation of convertible debentures liability and equity components, assessing the allowance for doubtful accounts on trade receivables, and estimating the fair value of share-based compensation (Note 16(d)).

Fair Value of Financial Instruments

The Company is required to determine the fair value of its loans, mortgages and marketable securities, mortgage debt, senior unsecured debentures, and its convertible debentures. In determining the fair value of the Company's outstanding mortgages, Management uses internally developed models, which incorporate estimated market rates. In determining market rates, Management adds a credit spread to quoted rates on Canadian government bonds with similar maturity dates to the Company's mortgages. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value. The fair value of the Company's convertible debentures is based on current trading prices.

3. TRANSITION TO IFRS

The Company transitioned from previous Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS effective January 1, 2010 (the "transition date") and has prepared its opening IFRS consolidated balance sheet as at that date. The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements that the Company prepared in accordance with IFRS. The Company has prepared the opening IFRS consolidated balance sheet by applying existing IFRS with an effective date of December 31, 2011 or prior.

In preparing the consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), certain optional exemptions from full retrospective application of IFRS are available. In this respect, the Company has applied the business combinations exemptions in IFRS 1 to not apply IFRS 3, "Business Combinations" retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date. The Company has also elected to apply IFRS 2, "Share-based payments" to equity instruments granted before November 7, 2002, the date subsequent to which IFRS is effective for instruments granted.

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions from full retrospective application of IFRS with respect to estimates. Specifically, hindsight was not used to create or revise estimates, and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

(c) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date:

(thousands of Canadian dollars)	Note 3(c)	Deficit	Accumulated Other Comprehensive Income	Share Capital	Contributed Surplus and Other Equity Items	**Total Shareholders' Equity**	Non-Controlling Interests	**Total Equity**
As reported under Canadian GAAP, December 31, 2009		$ (523,071)	$ 918	$1,564,028	$ 53,968	$1,095,843	$ —	$1,095,843
Differences increasing (decreasing) reported amount:								
Investment properties	(i)	601,570	—	—	—	601,570	—	601,570
Deferred taxes	(ii)	(111,046)	—	—	—	(111,046)	—	(111,046)
As reported under IFRS, January 1, 2010		$ (32,547)	$ 918	$1,564,028	$ 53,968	$1,586,367	$ —	$1,586,367

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at December 31, 2010:

(thousands of Canadian dollars)	Note 3(c)	Retaining Earnings (Deficit)	Accumulated Other Comprehensive Income	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
As reported under Canadian GAAP, December 31, 2010		$ (609,501)	$ 2,239	$1,689,516	$ 51,660	$1,133,914	$ —	$1,133,914
Differences increasing (decreasing) reported amount:								
Investment properties	(i)	873,400	—	—	—	873,400	—	873,400
Deferred taxes	(ii)	(174,620)	—	—	—	(174,620)	—	(174,620)
Other		(97)	—	—	—	(97)	3,906	3,809
As reported under IFRS, December 31, 2010		$ 89,182	$ 2,239	$1,689,516	$ 51,660	$1,832,597	$ 3,906	$1,836,503

(i) Investment properties

The Company considers its shopping centres and development land, along with ground leases to which the Company is the lessee, to be investment properties under IAS 40, "Investment Property" ("IAS 40"). Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IAS 40 requires that an entity choose either the cost or fair value model to account for investment property. The Company has elected to use the fair value model. This adjustment to retained earnings (deficit) represents the cumulative unrealized gain in respect of the Company's investment properties, net of the derecognition of related intangible assets and liabilities and deferred costs which are inherently reflected in the fair value of investment property, and the reclassification of straight-line rent receivable from amounts receivable.

(ii) Deferred taxes

The increase in deferred tax liabilities under IFRS compared with Canadian GAAP primarily relates to the increased carrying values of the Company's shopping centres and development land. The deferred tax liabilities under IFRS are determined by applying tax rates to temporary differences that are consistent with the Company's expectation of the method of realization of the asset.

(d) Reconciliation of net income as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2010.

		Year ended December 31
(thousands of Canadian dollars)	Note 3(d)	2010
Net income as reported under Canadian GAAP		$ 41,338
Differences increasing (decreasing) reported amount:		
Investment properties	(i)	273,663
Lease accounting and capitalized costs	(ii)	(2,065)
Deferred taxes	(iii)	(63,574)
Other		135
Total differences in net income		208,159
Net income as reported under IFRS		$ 249,497

(i) Investment properties

In accordance with IFRS and the Company's accounting policy choice, the Company measures investment properties at fair value and records changes in fair value in income during the period of change. Under Canadian GAAP these investment properties were recorded at cost and depreciated over their estimated useful lives. In addition, intangible assets and liabilities recognized on the acquisition of investment property were amortized to amortization expense revenue under Canadian GAAP, which is no longer the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment property.

(ii) Lease accounting and capitalized costs

Under IFRS, the date on which capitalization ceases is the date when the asset is in the condition and capable of operating in the manner intended by Management. This is typically the earlier of substantial completion of construction or when space is turned over to the tenant for fixturing. This date may be earlier as compared to Canadian GAAP and as a result there is an adjustment to recognize interest and operating costs previously capitalized under Canadian GAAP as expenses under IFRS.

IFRS also differs in two ways from historic Canadian GAAP with respect to straight-line rent, but the application of these differences had no net impact on the Company's consolidated financial statements. Firstly, straight-line rent revenue recognition under IFRS commences during a tenant's fixturing period, when capitalization of interest and operating costs ceases. For 2010, the additional straight-line rent revenue recorded during fixturing periods would have been approximately $1.5 million. Secondly, under Canadian GAAP, straight-line rent revenue recognition commenced prospectively on January 1, 2004. Under IFRS, retroactive treatment is required from lease commencement dates. For 2010, the effect of applying this difference would have decreased straight-line rent revenue by approximately $1.5 million.

(iii) Deferred taxes

The adjustment related to deferred taxes reflects the change in temporary differences resulting from the impact of the above differences between IFRS and Canadian GAAP.

(e) Reconciliation of comprehensive income as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010.

		Year ended December 31
(thousands of Canadian dollars)	Note	2010
Comprehensive income as reported under Canadian GAAP		$ 42,659
Differences increasing reported amount:		
Differences in net income	3(d)	208,159
Comprehensive income as reported under IFRS		$ 250,818

(f) Financial assets and liabilities

Upon the adoption of IFRS, all previously recognized financial assets and financial liabilities have been designated consistently with their designations under Canadian GAAP.

There were no material adjustments to the cash flow statement as a result of the adoption of IFRS.

4. FUTURE ACCOUNTING POLICY CHANGES

The Company is currently evaluating the impact of the following future accounting policy changes.

IAS 12, "Income Taxes" ("IAS 12"), has been amended in certain areas applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40. The amendments state that an entity may presume, for purposes of calculating deferred income taxes associated with temporary differences relating to investment properties, that the carrying amount of an investment property is recovered entirely through its sale, as opposed to presuming that the properties are held with the objective to consume substantially all of the economic benefits of the investment property over time. The standard is effective for annual periods on or after January 1, 2012. The Company will adopt the standard in the first quarter of 2012. The Company expects the effect of adoption of this standard to decrease the deferred tax liability at January 1, 2012 by approximately $75 million with a corresponding increase to retained earnings.

(b) Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). This standard addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39. Included in IFRS 9 are the requirements to measure debt-based financial assets at either amortized cost or FVTPL and to measure equity-based financial assets as either held-for-trading ("HFT") 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 or liabilities would no longer be bifurcated and accounted for separately under IFRS 9.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10") establishes principles for the preparation of the Company's consolidated financial statements when it controls one or more other entities. The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements of the Company. The standard also sets out the accounting requirements for the preparation of consolidated financial statements.

(d) Joint arrangements

IFRS 11, "Joint Arrangements" ("IFRS 11") replaces the existing IAS 31, "Interests in Joint Ventures" ("IAS 31"). IFRS 11 requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement (a "joint venture") or to its share of the assets and liabilities of the joint arrangement (a "joint operation"). Joint ventures must be accounted for using the equity method, whereas joint operations must be accounted for using proportionate consolidation.

(e) Disclosure of interests in other entities

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The standard requires the Company to disclose information that enables users of financial statements to evaluate: (1) the nature of, and risks associated with, the Company's interests in other entities; and (2) the effects of those interests on the Company's financial position, financial performance and cash flows.

(f) Fair value measurement

IFRS 13, "Fair Value Measurement" ("IFRS 13") replaces the current guidance on fair value measurement in existing IFRSs with a single standard. The standard defines fair value, provides guidance on its determination and requires disclosures about fair value measurements but does not change the requirements about the items that should be measured and disclosed at fair value.

Each of the above standards are effective for annual periods beginning on or after January 1, 2013, except for the amendment to IAS 12 and IFRS 9 which require adoption effective January 1, 2012 and January 1, 2015, respectively. Earlier adoption is permitted for each standard. With the exception of the amendments relating to IAS 12 as discussed in Note 4(a), the Company is in the process of assessing the impact on its financial statements, if any, of adopting these standards.

5. INVESTMENT PROPERTIES

Year ended December 31	**2011**		2010	
(thousands of Canadian dollars)	**Shopping Centres**	**Development Land**	Shopping Centres	Development Land
Balance at beginning of year	$ 4,734,574	$ 88,859	$ 4,113,466	$ 64,106
Additions				
Acquisitions	413,894	29,780	276,638	39,944
Capital expenditures	209,021	12,369	136,031	8,634
Initial direct leasing costs	6,013	—	5,978	—
Dispositions	(52,850)	(2,033)	(12,200)	—
Reclassifications between shopping centres and development land	35,433	(35,433)	13,177	(13,177)
Reclassification to residential development inventories	(3,279)	—	—	—
Increase (decrease) in value of investment properties, net	458,911	7,303	188,726	(10,648)
Straight line rent, acquisition of finance lease and other changes	9,571[1]	—	12,758	—
Balance at end of year	$ 5,811,288[2]	$ 100,845	$ 4,734,574	$ 88,859

[1] Includes $1.1 million acquisition of finance lease.

[2] Includes $96.7 million shopping centres classified as held for sale.

Capitalization rates, by region, for investment properties are set out in the table below:

	December 31, 2011			December 31, 2010		
Shopping Centres	**Number of Properties**	**Fair Value (C$ Millions)**	**Weighted Average Capitalization Rate**	Number of Properties	Fair Value (C$ Millions)	Weighted Average Capitalization Rate
Central Region	70	$ 2,713.1	6.27%	64	$ 2,209.3	6.83%
Eastern Region	51	1,098.3	6.80%	51	914.5	7.39%
Western Region	48	1,999.9	6.19%	47	1,610.8	6.92%
	169	$ 5,811.3	6.34%	162	$ 4,734.6	6.97%

A table summarizing the sensitivity of the fair values of shopping centres to capitalization rates as at December 31, 2011 is set out below:

Capitalization rate (decrease) increase	Resulting increase (decrease) in value of shopping centres (C$ millions)
(0.75%)	$ 766
(0.50%)	$ 489
(0.25%)	$ 234
0.25%	$ (217)
0.50%	$ (418)
0.75%	$ (604)

The increase in value of investment property, net by region, is set out in the table below:

Increase in fair value *($ millions of Canadian dollars)*	Central Region	Eastern Region	Western Region	Total
2011	$ 194,669	$ 52,737	$ 218,808	$ 466,214
2010	$ 125,635	$ 7,923	$ 44,520	$ 178,078

As at December 31, 2011, four investment properties with an aggregate fair value of $96.7 million are classified as held for sale. Mortgages payable secured by these properties aggregated $22.3 million with a weighted average cash interest rate of 6.28% and mature between 2012 and 2019. Two of these properties, with aggregate fair values totalling $31.2 million and mortgages payable of $6.2 million, were disposed of subsequent to year end.

Shopping centres valuation

During 2011, approximately 45% (year ended December 31, 2010 – approximately 39%, year ended December 31, 2009 – approximately 81%) of the total fair value of shopping centres was determined through external appraisals. The annual percentage determined through external appraisal is calculated based on the fair value of shopping centres in the period the appraisal was performed.

Development land valuation

During 2011 approximately 23% (year ended December 31, 2010 – approximately 10%, year ended December 31, 2009 – approximately 79%) of the total fair value of development land was determined through external appraisals. The annual percentage appraised is calculated based on the fair value of development land in the period the appraisal was performed.

Investment properties with a fair value of $3.3 billion (December 31, 2010 – $3.3 billion; January 1, 2010 – $2.8 billion) are pledged as security for mortgages and credit facilities.

During the years ended December 31, 2011 and 2010, the Company acquired shopping centres and development lands for rental income and future development and redevelopment opportunities as follows:

Year ended December 31	**2011**		2010	
(thousands of Canadian dollars)	**Shopping Centres**	**Development Land**	Shopping Centres	Development Land
Total purchase price, including acquisition costs	$ 413,894	$ 29,780	$ 276,638	$ 39,944
Less mortgage assumptions and vendor-take-back mortgages	(115,299)	—	(68,070)	(10,000)
Other net liabilities	—	—	(9,579)	—
Difference between principal amount and fair value of assumed mortgage financing	(8,082)	—	(3,032)	—
	$ 290,513	$ 29,780	$ 195,957	$ 29,944

Acquisition and capital expenditures on shopping centres and development lands by region are as follows:

Year ended December 31, 2011 *(thousands of Canadian dollars)*	**Central Region**	**Eastern Region**	**Western Region**	**Total**
Acquisitions	$ 202,902	$ 83,084	$ 157,688	$ 443,674
Capital expenditures and initial direct leasing costs	$ 103,662	$ 60,464	$ 63,277	$ 227,403

Year ended December 31, 2010 *(thousands of Canadian dollars)*	Central Region	Eastern Region	Western Region	Total
Acquisitions	$ 136,894	$ 12,753	$ 166,935	$ 316,582
Capital expenditures and initial direct leasing costs	$ 74,060	$ 30,682	$ 45,901	$ 150,643

Shopping centres and development land by region are as set out in the table below:

As at December 31, 2011 *(thousands of Canadian dollars)*	**Central Region**	**Eastern Region**	**Western Region**	**Total**
Total shopping centres and development lands [1]	$ 2,778,719	$ 1,112,943	$ 2,020,471	$ 5,912,133
A reconciliation of shopping centres and development lands to total assets is as follows:				
Cash and cash equivalents				3,075
Loans, mortgages and other real estate assets				126,860
Other assets				54,683
Amounts receivable				14,393
Total assets				$ 6,111,144

[1] Includes shopping centres classified as held-for-sale.

As at December 31, 2010 *(thousands of Canadian dollars)*	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development lands	$ 2,278,530	$ 916,107	$ 1,628,796	$ 4,823,433
A reconciliation of shopping centres and development lands to total assets is as follows:				
Cash and cash equivalents				31,735
Loans, mortgages and other real estate assets				92,842
Other assets				29,977
Amounts receivable				10,030
Total assets				$ 4,988,017

6. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS (NON-CURRENT)

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Non-revolving term loan receivable from Gazit America Inc. (a)	$ 37,295	$ 36,758	$ 37,836
AFS investments in marketable securities (b)	—	13,355	4,235
Other loans receivable (c)	9,127	11,897	11,105
	$ 46,422	$ 62,010	$ 53,176

(a) The non-revolving unsecured term loan receivable from Gazit America Inc. (“Gazit America”), a TSX-listed subsidiary of the Company’s principal shareholder, Gazit-Globe Ltd. (“Gazit”), in the amount of US$36.0 million, bears interest at 8.5% per annum calculated semi-annually, payable quarterly and is due June 19, 2014, subject to Gazit America’s option to extend the maturity date for a further five-year period at a fixed rate of 8.5%. The extension option is bifurcated from the loan and is accounted for separately as a component of Other Liabilities and is classified as a FVTPL liability at fair value, with changes in fair value recognized in income in the period of the change. The fair value of the option at December 31, 2011 is $0.1 million (December 31, 2010 – $0.8 million). The principal amount of the loan is prepayable without penalty from August 14, 2012. The loan arose as a result of the Company’s dividend-in-kind of its interest in Gazit America Inc. in August 2009.

(b) The Company invests from time to time in publicly traded real estate and related securities. These securities are recorded at market value. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income.

(c) Other loans receivable include loans and mortgages receivable on certain investment properties. The loans and mortgages receivable are secured by interests in investment properties, bear interest at a weighted average rate of 8.6% (December 31, 2010 – 9.0%; January 1, 2010 – 6.9%) and have fair values approximating their carrying values.

7. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS (CURRENT)

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
FVTPL investments in marketable securities (a)	$ 18,755	$ 13,958	$ 3,744
AFS investments in marketable securities	6,857	—	—
Residential development inventories (b)	37,166	16,874	1,166
Vendor-take-back mortgage (c)	—	—	2,300
Other loans receivable (d)	17,660	—	—
	$ 80,438	$ 30,832	$ 7,210

(a) The Company invests from time to time in publicly traded real estate and related securities. These securities are recorded at market value. Unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses).
(b) Title of certain of the residential development inventories is expected to be transferred to purchasers in 2013. The balance is classified as current, however, because the Company intends to sell such inventory in the normal operating cycle.
(c) The vendor-take-back mortgage was obtained on the sale of a shopping centre in 2009. Its fair value approximates its carrying value.
(d) Includes one loan receivable issued in 2011, secured by a portfolio of properties. The loan matures in September 2012 and bears interest at 10.75% per annum, and its fair value approximates its carrying value.

8. AMOUNTS RECEIVABLE

(thousands of Canadian dollars)	Note	**December 31 2011**	December 31 2010	January 1 2010
Trade receivables (net of allowances for doubtful accounts of $2.7 million (December 31, 2010 – $3.3 million; January 1, 2010 – $3.1 million))		$ 12,204	$ 8,428	$ 9,905
Construction and development related chargebacks and receivables		1,572	950	1,887
Corporate and other amounts receivable	28(a)	617	652	2,001
		$ 14,393	$ 10,030	$ 13,793

The Company determines its allowance for doubtful accounts on a tenant-by-tenant basis considering lease terms, industry conditions, and the status of the tenant's account, among other factors. Accounts are written off only when all reasonable collection efforts have been exhausted.

A reconciliation of the change in allowances for doubtful accounts for the year ended December 31 is set out in the table below:

(thousands of Canadian dollars)	**2011**	2010
Balance at beginning of year	$ 3,309	$ 3,085
Additions	630	719
Allowances applied or reversed	(1,229)	(495)
Balance at the end of year	$ 2,710	$ 3,309

Of the amounts receivable, $2.9 million are more than 120 days past due (December 31, 2010 – $3.2 million). Of these amounts, $1.6 million have been allowed for (December 31, 2010 – $2.1 million). Certain of the amounts receivable that are past due but not impaired relate to normal on-going tenant negotiations and disputes with respect to operating cost and tax recoveries. The Company believes these amounts to be collectable.

9. OTHER ASSETS

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Non-current			
Deposits and costs on investment properties under option	$ 7,823	$ 4,243	$ 4,304
Fixtures, equipment and computer hardware and software (net of accumulated amortization of $6.4 million (December 31, 2010 – $4.1 million; January 1, 2010 – $3.2 million))	6,721	6,330	6,090
Deferred financing costs on credit facilities (net of accumulated amortization of $0.6 million (December 31, 2010 – $2.9 million; January 1, 2010 – $1.5 million))	1,609	2,046	3,543
	$ 16,153	$ 12,619	$ 13,937
Current			
Prepaid expenses	$ 6,262	$ 7,607	$ 7,370
Other deposits	8,321	7,097	7,419
Restricted cash	23,947	2,654	—
	$ 38,530	$ 17,358	$ 14,789

10. CAPITAL MANAGEMENT

The Company manages its capital, taking into account the long-term business objectives of the Company, to provide stability and reduce risk while generating an acceptable return on investment over the long term to shareholders. The Company's capital structure currently includes common shares, senior unsecured debentures, convertible debentures and secured and unsecured term financings and revolving credit facilities, which together provide the Company with financing flexibility to meet its capital needs. Primary uses of capital include development activities, acquisitions, capital improvements, leasing costs, debt principal repayments and the payment of dividends to shareholders. The actual level and type of future financings to fund these capital requirements will be determined based on prevailing interest rates, various costs of debt and/or equity capital, capital market conditions and Management's general view of the required leverage in the business.

The components of the Company's capital are set out in the table below:

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Liabilities (principal amounts outstanding)			
Mortgages	$ 1,409	$ 1,318	$ 1,312
Loans and credit facilities – Canadian dollars	139	—	5
Loans and credit facilities – US dollars	36	—	38
Mortgages and credit facilities	1,584	1,318	1,355
Senior unsecured debentures	1,247	1,121	721
Convertible debentures	301	344	352
Shareholders' equity			
Common shares (based on closing share price of $17.30 (December 31, 2010 – $15.11; January 1, 2010 – $13.54 [1]))	3,083	2,469	2,080
	$ 6,215	$ 5,252	$ 4,508

[1] Restated for the May 2010 3.2:2 stock split.

The Company monitors a number of financial ratios in conjunction with its credit agreements and financial planning. These ratios are set out in the table below:

	Covenants	**December 31 2011**	December 31 2010	January 1 2010
Debt to market capitalization, cash balances netted	N/A	45.4%	46.0%	45.9%
Debt to aggregate assets (investment properties at cost)	<65%			
Joint ventures presented on IFRS basis		53.5%	52.5%	50.4%
Joint ventures proportionately consolidated		53.5%	52.5%	50.4%
Joint ventures proportionately consolidated, cash balances netted		53.4%	52.2%	50.3%
Debt to total assets (investment properties at IFRS value)	<65%			
Joint ventures presented on IFRS basis		46.2%	48.8%	48.3%
Joint ventures proportionately consolidated		46.4%	48.8%	48.3%
Joint ventures proportionately consolidated, cash balances netted		46.4%	48.4%	48.3%
Unencumbered total assets to unsecured debt (investment properties at IFRS value)	>1.30			
Joint ventures presented on IFRS basis		1.77	1.36	1.60
Joint ventures proportionately consolidated		1.77	1.36	1.60
Unencumbered total assets to unsecured debt (investment properties at cost)	>1.30			
Joint ventures presented on IFRS basis		1.55	1.36	1.51
Joint ventures proportionately consolidated		1.55	1.36	1.51
Adjusted shareholders' equity	>$1.2 billion	$ 2,107,889	$ 1,725,561	$ 1,586,367
Secured indebtedness to total assets (investment properties at IFRS value)	<40%	23.6%	26.4%	31.6%

Twelve months ended	Guidelines	**December 31 2011**	December 31 2010
Interest coverage (EBITDA to Interest Expense)	>1.65		
Joint ventures presented on IFRS basis		2.12	2.18
Joint ventures proportionately consolidated		2.12	2.18
With development interest capitalized		2.41	2.43
Fixed charges coverage (Consolidated EBITDA to Debt Service)	>1.5		
Joint ventures proportionately consolidated		1.72	1.74

The above ratios include measures not specifically defined in IFRS which are defined below:

Debt consists of outstanding balances on credit facilities, mortgages and unsecured debentures.

Aggregate assets consist of total assets on a cost basis.

Total assets consist of total assets under IFRS (with investment properties at fair value).

Market capitalization consists of the market value of the Company's common shares, the par value of senior unsecured debentures, convertible debentures and mortgages, loans and credit facilities.

EBITDA is calculated as net income, adding back deferred income tax expense, interest expense, amortization expense, increase in value of investment properties, other gains (losses) and (expenses) and other non-cash items.

Fixed charges include financing costs and capitalized interest in the calculation of interest expense and removes the amortization of the discount on convertible debentures.

Unencumbered assets includes the value of assets that have not been pledged as security under any credit agreement or mortgage, excluding investment property under development. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt.

The Company's strategy involves maintaining and improving the above ratios to allow continued access to capital at a reasonable cost. The Company's senior unsecured debentures are currently rated BBB with a stable trend by Dominion Bond Rating Services and Baa(3) with a positive outlook by Moody's Investors Service.

The Company's long-term financial objectives have remained substantially unchanged during the past six years. Since becoming an investment grade rated company in May 2005, the Company has financed its growth through common shares and convertible debentures (cashless) for the equity component and through senior unsecured debentures, mortgages and credit facilities for the debt component.

The Company's long-term financing strategy is based on maintaining maximum flexibility in accessing various forms of debt and equity capital by maintaining a pool of unencumbered assets and investment grade credit ratings from rating agencies. The Company periodically re-evaluates its overall financing and capital execution strategy to ensure the best access to available capital at the lowest possible cost.

The Company is subject to financial covenants in agreements governing its senior unsecured debentures and secured revolving credit facilities. The Company is in compliance with all of its applicable financial covenants.

11. MORTGAGES AND CREDIT FACILITIES

			December 31, 2011
(thousands of Canadian dollars)	**Canada**	**US**	**Total**
Fixed rate mortgages	$ 1,396,118	$ —	$ 1,396,118
Floating rate mortgages	13,654	—	13,654
Floating rate secured and unsecured revolving credit facilities	138,801	35,595	174,396
	$ 1,548,573	$ 35,595	$ 1,584,168
Current	$ 184,938	$ —	$ 184,938
Non-current	1,363,635	35,595	1,399,230
	$ 1,548,573	$ 35,595	$ 1,584,168

			December 31, 2010
(thousands of Canadian dollars)	Canada	US	Total
Fixed rate mortgages	$ 1,313,067	$ —	$ 1,313,067
Floating rate mortgages	5,274	—	5,274
	$ 1,318,341	$ —	$ 1,318,341
Current	95,941	—	95,941
Non-current	1,222,400	—	1,222,400
	$ 1,318,341	$ —	$ 1,318,341

			January 1, 2010
(thousands of Canadian dollars)	Canada	US	Total
Fixed rate mortgages	$ 1,308,699	$ —	$ 1,308,699
Floating rate mortgages	3,333	—	3,333
Floating rate secured revolving credit facilities	4,800	37,836	42,636
	$ 1,316,832	$ 37,836	$ 1,354,668
Current	$ 153,564	$ —	$ 153,564
Non-current	1,163,268	37,836	1,201,104
	$ 1,316,832	$ 37,836	$ 1,354,668

Mortgages and the secured credit facility are secured by investment properties. Of the fair value of investment properties of $5.9 billion as at December 31, 2011 (December 31, 2010 – $4.8 billion; January 1, 2010 – $4.2 billion), approximately $3.3 billion (December 31, 2010 – $3.3 billion; January 1, 2010 – $2.8 billion) has been pledged as security under mortgages and the secured credit facility.

At December 31, 2011, the fair value of the Company's mortgages, loans and credit facilities was approximately $1.7 billion (December 31, 2010 – $1.4 billion; January 1, 2010 – $1.4 billion).

(i) Mortgages

Fixed rate mortgages bear coupon interest at a weighted average interest rate of 5.88% at December 31, 2011 (December 31, 2010 – 6.09%; January 1, 2010 – 6.18%) and mature in years ranging from 2012 to 2025. The weighted average effective interest rate on fixed rate financing at December 31, 2011 is 5.68% (December 31, 2010 – 6.00%; January 1, 2010 – 6.15%).

(ii) Credit facilities

On January 29, 2009, the Company completed a three-year, $75 million secured revolving credit facility with a Canadian chartered bank.

On March 5, 2009, the Company completed a three-year, $450 million secured revolving credit facility with a syndicate of ten banks. This facility replaced the Company's three-year $350 million senior unsecured revolving credit facility maturing March 2010.

During the remainder of 2009, the Company reduced the $450 million facility by $165 million to $285 million.

On January 21, 2010, the Company reduced the availability of the secured revolving credit facility by a further $35 million to $250 million. As a result, $0.3 million of unamortized deferred financing costs were recorded as a loss on settlement of debt in the year ended December 31, 2010 (note 20).

Also on January 21, 2010, the Company reduced the availability of the $75 million secured revolving credit facility to $50 million which resulted in $0.2 million of unamortized deferred financing costs being recorded as a loss on settlement of debt in the year ended December 31, 2010 (note 20). Pricing on the facility is Canadian bankers' acceptances ("BA") plus 175 basis points. The maturity date of the secured revolving credit facility is December 31, 2012.

On June 30, 2011, the Company entered into a new, two-year, $250 million senior unsecured revolving credit facility with two Canadian chartered banks. The Company's $250 million syndicated secured facility was concurrently reduced to $50 million. On August 29, 2011, the Company increased its new unsecured facility to $425 million on the same terms and concurrently terminated its existing syndicated secured facility. As a result of reducing and later terminating its existing syndicated secured facility, $1.1 million of unamortized deferred financing costs were recorded as a loss on settlement of debt for the year ended December 31, 2011 (note 20). On December 31, 2011, the Company increased the senior unsecured revolving credit facility from $425 million to $500 million. Pricing on the unsecured facility is BA plus 200 basis points on the existing $425 million portion and BA plus 175 basis points on the new $75 million portion. The maturity date of this facility is June 30, 2013, with a one-year extension option in favour of the Company.

At December 31, 2011, the Company had $351.5 million (December 31, 2010 – $281.5 million; January 1, 2010 – $303.6 million) of undrawn credit facilities available for acquisitions, development activities, and general corporate purposes.

Principal repayments of mortgages and credit facilities outstanding as at December 31, 2011 are as follows:

(thousands of Canadian dollars)	Principal Instalment Payments	Balance Maturing	Total	Weighted Average Coupon Interest Rate
2012	$ 37,562	$ 144,912	$ 182,474	5.80%
2013	34,355	395,462	429,817	4.70%
2014	25,941	249,035	274,976	6.22%
2015	18,285	182,546	200,831	5.43%
2016	13,790	109,852	123,642	5.55%
Thereafter	39,156	327,504	366,660	5.93%
	$ 169,089	$ 1,409,311	$ 1,578,400	5.53%
Unamortized deferred financing costs, premiums and discounts, net			5,768[1]	
			$ 1,584,168	

[1] Includes $2.5 million of deferred financing costs, premiums and discounts, net, classified as current on the consolidated balance sheet.

12. SENIOR UNSECURED DEBENTURES

(thousands of Canadian dollars)					December 31 2011	December 31 2011	December 31 2010	January 1 2010
			Interest Rate		**Principal**			
Maturity Date	Series	Date of Issue	Coupon	Effective	**Outstanding**	**Liability**	Liability	Liability
March 30, 2011	B	March 30, 2006	5.25%	5.51%	$ —	$ —	$ 98,836	$ 98,589
December 1, 2011	C	August 1, 2006	5.49%	5.67%	—	—	99,745	99,585
June 21, 2012	A	June 21, 2005	5.08%	5.29%	100,000	99,800	99,610	99,430
April 1, 2013	D	September 18, 2006	5.34%	5.51%	97,000	96,805	96,659	96,520
January 31, 2014	E	January 31, 2007	5.36%	5.52%	100,000	99,756	99,612	99,476
October 30, 2014	F	April 5, 2007	5.32%	5.47%	100,000	99,673	99,546	99,424
June 1, 2015	G	November 20, 2009	5.95%	6.13%	125,000	124,317	124,142	124,016
January 31, 2017	H	January 21,2010	5.85%	5.99%	125,000	124,224	124,096	—
November 30, 2017	I	April 13, 2010	5.70%	5.85%	50,000	49,628	49,577	—
November 30, 2017	I	April 13, 2010	5.70%	5.82%	25,000	24,853	24,833	—
November 30, 2017	I	June 14, 2010	5.70%	5.70%	50,000	49,992	49,991	—
August 30, 2018	J	July 12, 2010	5.25%	5.66%	50,000	49,014	48,869	—
November 30, 2018	K	August 25, 2010	4.95%	5.30%	50,000	49,000	48,883	—
November 30, 2018	K	October 26, 2010	4.95%	5.04%	50,000	49,734	49,632	—
July 30, 2019	L	January 21, 2011	5.48%	5.61%	150,000	148,817	—	—
April 30, 2020	M	March 30, 2011	5.60%	5.73%	110,000	109,070	—	—
April 30, 2020	M	June 13, 2011	5.60%	5.39%	65,000	65,911	—	—
			5.49%	5.63%	$1,247,000	$1,240,594	$1,114,031	$ 717,040
Current					$ 100,000	$ 100,000	$ 198,799	$ —
Non-current					1,147,000	1,140,594	915,232	717,040
					$1,247,000	$1,240,594	$1,114,031	$ 717,040

Interest on the senior unsecured debentures is payable semi-annually and principal is payable on maturity.

The fair value of the senior unsecured debentures is approximately $1.320 million at December 31, 2011 (December 31, 2010 – $1.160 million; January 1, 2010 – $734 million) based on closing bid spreads and current underlying Government of Canada bond yields.

13. CONVERTIBLE DEBENTURES

(thousands of Canadian dollars)				**December 31, 2011**			December 31, 2010			January 1, 2010		
		Interest Rate										
Date of Issue	Maturity Date	Coupon	Effective	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity	Principal	Liability	Equity
Various [1]	Sept 30, 2017	5.50%	6.61%	$ 19,866	$ 18,828	$ 1,060	$ 225,808	$ 214,117	$ 15,688	$ 226,750	$ 213,657	$ 15,716
Sept 18, 2009	Dec 31, 2016	6.25%	7.64%	66,779	62,993	1,749	67,942	63,478	2,385	75,000	69,579	2,632
Dec 30, 2009	June 30, 2017	5.70%	6.88%	49,127	46,501	1,087	50,000	46,940	1,482	50,000	46,503	1,482
April 28, 2011	Jan 31, 2019	5.40%	6.90%	57,500	52,715	2,217	—	—	—	—	—	—
Aug 9, 2011	Jan 31, 2019	5.25%	6.06%	57,500	54,835	395	—	—	—	—	—	—
Dec 15, 2011	Mar 31, 2018	5.25%	6.66%	50,000	46,456	1,168	—	—	—	—	—	—
				$ 300,772	$ 282,328	$ 7,676	$ 343,750	$ 324,535	$ 19,555	$ 351,750	$ 329,739	$ 19,830

[1] Issued in three tranches: December 2005, November 2006 and June 2007 for principal amounts of $100 million, $100 million and $50 million respectively.

Each series of the Company's convertible unsecured subordinated debentures bears interest payable semi-annually and is convertible at the option of the holders in the conversion periods into common shares of the Company at the conversion prices indicated below.

Maturity Date	Coupon Rate	Toronto Stock Exchange Symbol ("TSX")	Conversion Price
September 30, 2017	5.50%	FCR.DB.A and FCR.DB.B	$ 16.425[1]
December 31, 2016	6.25%	FCR.DB.C	$ 14.313
June 30, 2017	5.70%	FCR.DB.D	$ 18.750
January 31, 2019	5.40%	FCR.DB.E	$ 22.620
January 31, 2019	5.25%	FCR.DB.F	$ 23.770
March 31, 2018	5.25%	FCR.DB.G	$ 23.250

[1] $17.031 from January 1, 2012 to maturity.

The convertible unsecured subordinated debentures were issued pursuant to the Company's trust indenture dated December 19, 2005, as supplemented, and all rank pari passu.

On August 10, 2010, the Company commenced a normal course issuer bid (the "NCIB-I") for each series of its convertible unsecured subordinated debentures then outstanding. The NCIB-I expired on August 9, 2011.

On August 25, 2011, First Capital Realty commenced a normal course issuer bid (the "NCIB-II") for certain series of its convertible unsecured subordinated debentures which expires on September 18, 2012 or such earlier date as the Company completes its purchases pursuant to the NCIB-II. All purchases made under the NCIB-II will be made in accordance with the rules of the TSX through the facilities of the TSX or other Canadian marketplaces at market prices prevailing at the time of purchase, and the timing of such purchases will be determined by First Capital Realty.

During the year ended December 31, 2011, the Company purchased $2.0 million of principal amount of the 5.50%, 5.70% and 6.25% convertible debentures for $2.1 million, resulting in a loss of $0.1 million (note 20), an addition to contributed surplus in the amount of $36,000 and a reduction in the convertible debenture-equity component of $0.1 million. During the year ended December 31, 2010, the Company purchased $7.1 million of principal amount of the 6.25% convertible debentures for $7.6 million, resulting in a loss of $0.7 million (note 20), a reduction of contributed surplus in the amount of $60,000 and a reduction in convertible debenture-equity component of $247,000. The Company also purchased $0.9 million of principal amount of the 5.50% convertible debentures for $0.9 million, resulting in a loss of $27,000 (note 20), an increase of contributed surplus in the amount of $5,000 and a reduction in convertible debenture-equity component of $28,000.

The Company has the option of repaying the debentures on maturity through the issuance of common shares at 97% of the weighted average trading price of the Company's common shares. The Company also has the option of paying the semi-annual interest through the issuance of common shares valued in the same fashion. In addition, the Company has the option of repaying the debentures prior to the maturity date under certain circumstances, either in cash or in common shares. Consistent with existing practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

On July 12, 2011, the Company temporarily changed the conversion privilege of its approximately $212.8 million principal amount outstanding of 5.50% convertible unsecured subordinated debentures, class CDN and class US (TSX: FCR.DB.A and FCR.DB.B), (the "5.50% Debentures"). The temporary change reduced the conversion price of the 5.50% Debentures to $16.25, from the original conversion price of $16.425 for a 35-day period, ended on August 16, 2011. Pursuant to this temporary change to the conversion privilege, a total of approximately $84.7 million principal amount of 5.50% Debentures was converted into approximately 5.2 million common shares, including $74 million converted by Gazit Canada Inc. ("Gazit Canada"), a wholly owned subsidiary of Gazit.

On November 25, 2011, the Company temporarily changed the conversion price of its approximately $126.6 million principal amount outstanding of 5.50% Debentures to $16.30 from the original conversion price of $16.425 for a 35-day period, ended on December 30, 2011. Pursuant to this temporary change to the conversion privilege, a total of approximately $106.8 million principal amount of 5.50% Debentures was converted into approximately 6.5 million common shares, including $83.4 million converted by Gazit Canada.

For the year ended December 31, 2011, convertible debentures aggregating $205.9 million were converted into 12.7 million shares.

During the year ended December 31, 2011, 1,249,851 common shares (year ended December, 2010 – 1,390,495 common shares) were issued for $19.8 million (year ended December 31, 2010 – $19.3 million) to pay interest to holders of convertible debentures.

On December 29, 2011, Gazit Canada converted all of its remaining 5.50% Debentures and its 6.25% convertible debentures owned. As at December 31, 2010, Gazit Canada owned $157.4 million (January 1, 2010 – $157.4 million) principal amount of the 5.50% outstanding convertible debentures and $0.6 million (January 1, 2010 – $29,000) principal amount of the outstanding 6.25% convertible debentures.

Based on the TSX closing bid prices, as at December 31, 2011, the fair value of the convertible debentures was approximately $318 million (December 31, 2010 – $350 million; January 1, 2010 – $348 million).

14. OTHER LIABILITIES

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Asset retirement obligations (a)	$ 2,888	$ 1,137	$ 1,028
Ground lease payable (b)	8,747	7,700	5,002
Loans payable	—	62	67
Other liabilities	213	822	224
	$ 11,848	$ 9,721	$ 6,321

(a) The Company has legal obligations for environmental remediation at certain sites within its portfolio. The amounts recorded as liabilities exclude those amounts recoverable or reimbursable from other parties. A reconciliation of the change in asset retirement obligations for the years ended December 31, 2011 and 2010 is set out in the table below.

(thousands of Canadian dollars)	**2011**	2010
Balance at beginning of year	$ 1,137	$ 1,028
Additional obligations	2,000	75
Payments	(165)	—
Reversals of obligations	(85)	—
Impact of discounting	1	34
Balance at the end of year	$ 2,888	$ 1,137

(b) The Company has elected to present all ground leases to which it is a lessee as investment properties at fair value, as permitted by IAS 40. As such, the related finance lease liability is recognized on the consolidated balance sheet as an other liability at amortized cost. The implicit rates of interest on the ground leases range between 6.32% and 9.75%.

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Trade payables and accruals	$ 32,182	$ 44,020	$ 36,360
Construction and development payables	43,103	33,098	36,175
Dividends payable	35,639	32,691	30,734
Interest payable	28,167	24,234	19,310
Tenant deposits	15,531	10,944	9,819
Derivatives at fair value (a)	5,620	873	1,204
Short positions in marketable securities (b)	20,458	2,104	—
Loans payable (c)	9,340	—	—
Other liabilities	1,437	1,235	2,740
	$ 191,477	$ 149,199	$ 136,342

(a) The Company enters into forward contracts and interest rate swaps as part of its strategy for managing certain interest rate risks. These derivatives are measured at fair value, estimated using Level 2 inputs. The Company uses hedge accounting for its bond forward contracts which at December 31, 2011 were valued at $4.0 million in favour of the Company's counterparty (December 31 – $nil; January 1, 2010 – $nil). During the year ended December 31, 2011, $4.1 million was recorded as a loss in other comprehensive income as a result of changes in the fair value of bond forwards. The contracts have since been extended to March 2012. The Company does not apply hedge accounting to its interest rate swaps, which are valued at $1.6 million in favour of the Company's counterparty (December 31, 2010 – $0.9 million; January 1, 2010 – $1.2 million). The interest rate swaps mature in May 2018.

(b) The Company invests from time to time in long and short positions in publicly traded real estate and related securities; refer also to notes 6 and 7. These securities are recorded at market value. Unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses). At December 31, 2011, a restricted cash balance of $23.9 million was maintained on account with the Company's security broker as collateral for the Company's investment in short positions. This restricted cash balance is recorded in other assets (current) (note 9).

(c) Includes a $9.3 million mortgage loan (December 31, 2010 and January 1, 2010 – nil) bearing interest at an effective rate of 1% per annum relating to residential development inventories.

16. SHAREHOLDERS' EQUITY

(a) Share capital

The Company has an unlimited number of authorized preference shares and common shares. The preference shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution; preference shares are non-voting and rank in priority to the common shares with respect to dividends and distributions upon dissolution. No preference shares have been issued. The common shares carry one vote each and participate equally in the earnings of the Company and the net assets of the Company upon dissolution. Dividends are payable on the common shares as and when declared by the Board of Directors.

Effective May 27, 2010, the outstanding common shares were subdivided at a ratio of 3.2 common shares for each two common shares. No fractional common shares were issuable as a result of the subdivision, but, rather, a cash payment was made for such fractional interests determined on the basis of the closing price of the common shares on the TSX on May 28, 2010. The subdivision did not dilute shareholders' equity. All references to the number or price of common shares have been restated to reflect the subdivision throughout the financial statements.

The following table sets forth the particulars of the issued and outstanding common shares of the Company:

		December 31, 2011		December 31, 2010	
(thousands of Canadian dollars)	Note	**Number of Common Shares**	**Stated Capital**	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of year		163,455,753	$ 1,689,516	153,672,609	$ 1,564,028
Issuance of common shares		90,200	1,248	3,874,349	55,765
Payment of interest on convertible debentures	13	1,249,851	19,797	1,390,495	19,275
Conversion of convertible debentures	13	12,650,790	206,711	—	—
Exercise of warrants (c)		—	—	3,681,424	42,096
Exercise of options (d)		778,271	9,648	836,876	9,735
Share issue costs and other		—	2,225	—	(1,819)
Tax effect of issue costs		—	(562)	—	436
Issued and outstanding at end of year		178,224,865	$ 1,928,583	163,455,753	$ 1,689,516

On April 22, 2010, the Company issued 80,738 shares to certain members of the Company's Management at a price of $13.79 per share for gross proceeds of $1.1 million.

On June 29, 2010, the Company completed the sale of 3,485,000 common shares at a price of $14.35 per common share for total gross proceeds of $50.0 million. On July 15, 2010 the underwriters exercised part of their over-allotment option and purchased an additional 200,000 common shares at the offering price of $14.35 per common share for additional gross proceeds of $2.9 million.

On December 15, 2010, the Company issued 108,611 shares to certain members of the Company's Management at a price of $15.25 per share for gross proceeds of $1.7 million.

On December 15, 2011, the Company issued 90,200 shares to certain members of the Company's Management at a price of $17.46 per share for gross proceeds of $1.6 million.

(b) Contributed surplus and other equity items

Contributed surplus and other equity items are comprised of the following:

(thousands of Canadian dollars)	December 31, 2011				December 31, 2010			
	Contributed Surplus[1]	**Convertible Debentures Equity Component**	**Options, Restricted and Deferred Share Units and Warrants**	**Total**	Contributed Surplus[1]	Convertible Debentures Equity Component	Options, Restricted and Deferred Share Units and Warrants	Total
		(note 13)				*(note 13)*		
Balance, beginning of year	$ 19,458	$ 19,555	$ 12,647	$ 51,660	$ 19,513	$ 19,830	$ 14,625	$ 53,968
Issuance of convertible debentures	—	3,781	—	3,781	—	—	—	—
Conversion of convertible debentures	—	(14,250)	—	(14,250)	—	—	—	—
Purchase of convertible debentures	36	(85)	—	(49)	(55)	(275)	—	(330)
Exercise of warrants	—	—	—	—	—	—	(1,808)	(1,808)
Options vested	—	—	1,297	1,297	—	—	1,032	1,032
Exercise of options	—	—	(674)	(674)	—	—	(580)	(580)
Deferred share units vested	—	—	747	747	—	—	659	659
Restricted share units vested	—	—	1,680	1,680	—	—	1,733	1,733
Exercise of restricted share units	—	—	(2,054)	(2,054)	—	—	(3,014)	(3,014)
Other adjustments	—	(1,325)	—	(1,325)	—	—	—	—
Balance, end of year	$ 19,494	$ 7,676	$ 13,643	$ 40,813	$ 19,458	$ 19,555	$ 12,647	$ 51,660

[1] On redemption of convertible debentures.

(c) Warrants

As a result of and effective immediately following the 3.2:2 stock split of common shares in May 2010, the exercise price of First Capital Realty's outstanding warrants (TSX:FCR.WT.A) was decreased by (multiplying by) a factor of 0.625 (resulting in a post-split exercise price of $10.96 per common share) and the number of common shares for which each such warrant was exercisable was increased by (multiplying by) a factor of 1.6 (resulting in warrantholders being entitled to receive 1.6 common shares for each exercised warrant, with any fractional interests being rounded down to the nearest whole number without payment of any consideration therefor).

During the year ended December 31, 2010, 898,532 share purchase warrants were exercised for 898,532 common shares at $17.53 per common share prior to the stock split and 1,402,358 share purchase warrants were exercised for 2,243,772 common shares at $10.96 per common share subsequent to the stock split, resulting in total proceeds to the Company of $40.3 million. The equity component of the warrants exercised totalling $1.8 million was transferred to share capital.

There have been no share purchase warrants outstanding subsequent to October 29, 2010, the maturity date of the Company's warrants.

(d) Stock options

As a result of and effective immediately following the stock split, the exercise price per common share for First Capital Realty's outstanding stock options was decreased by (multiplying by) a factor of 0.625 and the number of common shares issuable on exercise of stock options outstanding was increased by (multiplying by) a factor of 1.6 with any fractional interests being rounded down to the nearest whole number without payment of any consideration thereof.

As of December 31, 2011, the Company is authorized to grant up to 15,240,000 (December 31, 2010 – 15,240,000; January 1, 2010 – 11,240,000) common share options to the employees, officers and directors of the Company. As of December 31, 2011, 5,640,233 (December 31, 2010 – 6,547,352; January 1, 2010 – 3,073,355) common share options are available to be granted. Options granted by the Company generally expire ten years from the date of grant and vest over three to five years. The outstanding options at December 31, 2011 have exercise prices ranging from $9.78 to $16.95 (December 30, 2010 – $7.76 to $16.95) and are comprised of the following:

	December 31, 2011					December 31, 2010				
	Outstanding Options			**Vested Options**		Outstanding Options			Vested Options	
Exercise Price Range	**Common Shares Issuable**	**Weighted Average Price per Common Share**	**Weighted Remaining Life (years)**	**Common Shares Issuable**	**Weighted Average Price per Common Share**	Number of Common Shares Issuable	Weighted Average Exercise Price per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable	Weighted Average Exercise Price per Common Share
$ 7.76—$10.81	549,969	$ 9.92	6.6	260,012	$ 10.02	1,022,249	$ 9.87	7.2	381,704	$ 9.94
$11.94—$14.26	1,744,553	$ 13.72	6.6	1,179,942	$ 13.62	2,044,783	$ 13.73	7.6	878,181	$ 13.47
$15.47—$16.95 [1]	3,297,366	$ 16.33	6.3	2,077,566	$ 16.54	2,396,006	$ 16.57	6.0	1,916,006	$ 16.48
$ 7.76—$16.95 [1]	5,591,888	$ 14.89	6.4	3,517,520	$ 15.08	5,463,038	$ 14.25	6.8	3,175,891	$ 14.86

[1] The table above reflects the exercise prices in effect at each of December 31, 2011 and December 31, 2010. The exercise prices of all eligible options were adjusted by $0.28 in the third quarter of 2010 to reflect the capital distribution relating to the August 2009 dividend-in-kind of the Company's interest in Equity One, Inc.

In the year ended December 31, 2011, $1.3 million (year ended December 31, 2010 – $1.1 million) was recorded as an expense related to stock options.

	December 31, 2011		December 31, 2010	
	Number of Common Shares	**Weighted Average**	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, beginning of year	5,463,038	$ 14.25	5,773,912	$ 13.98
Granted	1,067,500	$ 15.74	996,520	$ 13.92
Exercised (a)	(778,269)	$ 11.54	(836,878)	$ 10.94
Forfeited	(160,381)	$ 15.23	(470,516)	$ 14.78
Outstanding, end of year	5,591,888	$ 14.89	5,463,038	$ 14.25

(a) The weighted average market share price at which options were exercised for the year ended December 31, 2011 was $16.42 (December 31, 2010 – $14.32).

On March 10, 2011, the Company granted 1,022,500 common share options with an exercise price of $15.70, which had a total value of approximately $1.7 million at the time of issue.

On May 21, 2011, the Company granted 15,000 common share options with an exercise price of $16.73, which had a total value of approximately $27,000 at the time of issue.

On August 30, 2011, the Company granted 30,000 common share options with an exercise price of $16.45, which had a total value of approximately $59,000 at the time of issue. On August 16, 2010, the Company granted 45,000 common share options with an exercise price of $14.26, which had a total value of approximately $54,000 at the time of issue.

On March 24, 2010, the Company granted 951,520 common share options (594,700 common share options prior to stock split) with an exercise price of $13.91 ($22.25 prior to stock-split), which had a total value of approximately $1.3 million at the time of issue.

The fair value associated with the options issued in 2011 and 2010 was calculated using the Binomial Model for option valuation, assuming an average volatility of 15% on the underlying shares, a ten-year term to expiry, and the ten-year weighted average risk-free interest rate (typically, the ten-year Canada bond rate at the grant date). One third of the options issued in 2010 vest on each of the three anniversary dates following the grant date. One fifth of the options issued in 2011 vest on each of the five anniversary dates following the grant date.

(e) Share unit plans

The Company's share unit plans include a Directors Deferred Share Unit Plan, an Employee Restricted Share Unit Plan and a Chief Executive Officer Restricted Share Unit Plan. Under the plans, a participant is entitled to receive one common share, or equivalent cash value, at the Company's option, when the Deferred Share Unit ("DSU") or Restricted Share Unit ("RSU") vests. RSUs vest on December 15 of the third calendar year following the year in respect of which the RSU is granted. DSUs vest when the holder ceases to be a director of the Company. Holders of RSUs and DSUs receive dividends in the form of additional units when the Company declares dividends on its common shares.

	December 31, 2011		December 31, 2010	
	Deferred Share Units	**Restricted Share Units**	Deferred Share Units	Restricted Share Units
Outstanding, beginning of year	247,264	375,319	201,639	447,227
Granted (a)	30,824	132,250	33,531	112,000
Dividends declared	12,681	22,484	12,094	26,064
Exercised	—	(136,325)	—	(200,411)
Forfeited	—	(25,281)	—	(9,561)
Outstanding, end of year	290,769	368,447	247,264	375,319
Share units available to be granted based on the current reserve	289,340	601,446	332,844	730,901
Expense recorded for the year (thousands)	$ 397	$ 1,361	$ 389	$ 1,365

(a) The fair value of the DSUs granted during the year ended December 31, 2011 was $0.5 million (December 31, 2010 – $0.5 million), measured based on the Company's prevailing share price on the date of grant. The fair value of the RSUs granted during the year ended December 31, 2011 was $2.0 million (December 31, 2010 – $1.6 million), measured based on the Company's share price on the date of grant.

17. NET OPERATING INCOME

Net operating income is as follows:

Year ended December 31, 2011 (thousands of Canadian dollars)	**Central Region**	**Eastern Region**	**Western Region**	**Subtotal**	**Other[1]**	**Total**
Property rental revenue	$ 241,369	$ 114,013	$ 164,812	$ 520,194	$ 6,541	$ 526,735
Property operating costs	91,793	46,153	53,287	191,233	(4,586)	186,647
Net operating income	$ 149,576	$ 67,860	$ 111,525	$ 328,961	$ 11,127	$ 340,088

Year ended December 31, 2010 (thousands of Canadian dollars)	Central Region	Eastern Region	Western Region	Subtotal	Other[1]	Total
Property rental revenue	$ 220,590	$ 105,945	$ 147,701	$ 474,236	$ 8,239	$ 482,475
Property operating costs	83,654	43,458	47,819	174,931	(6,471)	168,460
Net operating income	$ 136,936	$ 62,487	$ 99,882	$ 299,305	$ 14,710	$ 314,015

[1] Other items are principally rental revenue recorded on a straight-line basis and operating costs that are not attributable to a region.

18. INTEREST AND OTHER INCOME

		Year ended December 31	
(thousands of Canadian dollars)	Note	**2011**	2010
Interest income from non-revolving term loan receivable from Gazit America Inc.	6(a)	$ 3,028	$ 3,148
Interest, dividend and distribution income from marketable securities and cash investments		2,873	1,252
Interest income from loans receivable	6(c)	1,583	620
		$ 7,484	$ 5,020

19. INTEREST EXPENSE

		Year ended December 31	
(thousands of Canadian dollars)	Note	**2011**	2010
Mortgages and credit facilities		$ 64,107	$ 68,828
Senior unsecured debentures		72,746	54,613
Convertible debentures			
Coupon interest		20,470	19,886
Accretion of discounts		1,530	1,357
Amortization of deferred issue costs		1,128	971
		23,128	22,214
Interest expense		159,981	145,655
Convertible debenture interest paid in common shares	13	(19,797)	(19,275)
Change in accrued interest		(3,933)	(4,924)
Effective interest rate in excess of coupon rate on senior unsecured and convertible debentures		(1,467)	(1,404)
Interest paid in excess of coupon interest on assumed mortgages		2,485	1,628
Other non-cash interest expense		(4,005)	(3,564)
Interest capitalized to investment properties		18,449	14,199
Cash interest paid		$ 151,713	$ 132,315

20. OTHER GAINS (LOSSES) AND (EXPENSES)

		Year ended December 31	
(thousands of Canadian dollars)	Note	**2011**	2010
Realized gains on sale of marketable securities		$ 4,320	$ 4,361
Gain from settlement of Royal Oak litigation (a)		—	1,672
Change in cumulative unrealized (losses) gains on marketable securities classified as FVTPL		(1,296)	253
Losses on settlement of debt (b)	11	(1,486)	(1,215)
Loss on temporary change of conversion privilege of convertible debentures (c)	13	(2,501)	—
Realized losses on interest rate swaps (d)		—	(1,588)
Unrealized (losses) gains on interest rate swaps	15(a)	(326)	538
Gain on foreign currency exchange		268	2
Other income		—	58
Gain on disposition of investment properties		211	251
		$ (810)	$ 4,332

(a) During the first quarter of 2010, the Company settled its litigation with the former co-owner of the Royal Oak Shopping Centre in Calgary, Alberta which resulted in the Company acquiring the remaining 40% interest in the Royal Oak Shopping Centre. The Company recorded a gain of $1.7 million, representing the benefit realized as a result of the change in net assets since February 2007, less the Company's costs of settling the litigation.

(b) The $1.5 million loss on settlement of debt primarily relates to the write-off of deferred financing costs arising from the termination of the secured credit facility done in conjunction with the completion of the new $425 million unsecured credit facility (Note 11), and a prepayment penalty on a mortgage payable.

(c) On July 8, 2011 and November 22, 2011, the Company temporarily changed the conversion privilege of its 5.50% convertible unsecured subordinated debentures by reducing the conversion price from the original conversion price of $16.425 per common share, for a 35-day period, to induce early conversion into common shares by holders of the debentures. In accordance with IAS 32 Financial Instruments: Presentation ("IAS 32") the Company recognized an expense of approximately $1.5 million and $1.0 million, respectively, calculated as the fair market value of the additional shares issuable under the conversion privilege due to the inducement. IAS 32 requires the expense to be calculated for all debentures to which the inducement was offered in each instance, notwithstanding certain holders elected not to convert in each instance.

(d) The Company terminated $90 million notional amount of Canadian bankers' acceptances based interest rate swaps in the first quarter of 2010, resulting in a loss of $1.6 million.

21. INCOME TAXES

The sources of deferred tax balances and movements are as follows:

			Recognized in		
(thousands of Canadian dollars)	December 31, 2010	**Net Income**	**OCI**	**Equity**	**December 31, 2011**
Deferred taxes related to non-capital losses and capital losses	$ (25,414)	$ (9,781)	$ —	$ —	$ (35,195)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	261,101	135,958	(1,334)	7,996	403,721
Net deferred taxes	$ 235,687	$ 126,177	$ (1,334)	$ 7,996	$ 368,526

At December 31, 2011, the Company has approximately $139 million of non-capital losses which expire between 2015 and 2031.

(thousands of Canadian dollars)	December 31, 2009	Net Income	Recognized in OCI	Equity	December 31, 2010
Deferred taxes related to non-capital losses and capital losses	$ (19,657)	$ (5,757)	$ —	$ —	$ (25,414)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	174,205	87,078	252	(434)	261,101
Net deferred taxes	$ 154,548	$ 81,321	$ 252	$ (434)	$ 235,687

At December 31, 2010, the Company had approximately $102 million of non-capital losses will expire between 2014 and 2030.

The following reconciles the Company's statutory tax rate to its effective tax rate for the years ended December 31, 2011 and 2010:

	Year ended December 31	
(thousands of Canadian dollars)	**2011**	2010
Income tax expense at the Canadian federal and provincial income tax rate of 27.85% (2010 – 30.10%)	$ 174,834	$ 99,577
Increase (decrease) in income tax expense due to the following:		
Non-deductible interest	427	432
Changes in timing of reversal	(13,205)	(14,918)
Non-taxable real estate and other gains	(27,464)	(8,476)
Other	(8,415)	4,706
Total income tax expense	$ 126,177	$ 81,321

The Canadian federal and provincial income tax rate declined due to decreases in provincial and federal rates.

22. PER SHARE CALCULATIONS

The following table sets forth the computation of per share amounts:

	Year ended December 31	
(thousands of Canadian dollars)	**2011**	2010
Numerator		
Net income attributable to common shareholders	$ 501,622	$ 249,497
Adjustment for dilutive effect of convertible debentures, net of tax	18,566	16,083
Numerator for diluted per share amounts	$ 520,188	$ 265,580
Denominator		
Weighted average shares outstanding for basic per share amounts	168,007,431	159,113,924
Warrants	—	451,022
Options	624,490	466,042
Convertible debentures	20,499,910	20,885,608
Denominator for diluted per share amounts	189,131,831	180,916,596
Basic net income per share attributable to common shareholders	$ 2.99	$ 1.57
Diluted net income per share attributable to common shareholders	$ 2.75	$ 1.47

The following securities were not included in the diluted per share calculation as the effect would have been anti-dilutive:

Year ended December 31	Number of Shares if Converted or Exercised			
	Exercise Price	2011	Exercise Price	2010
Common share options	$ 15.70–$16.95	2,685,600	$ 13.91–$16.95	3,338,926

Regular dividends paid per common share were $0.80 for both the years ended December 31, 2011 and 2010.

23. RISK MANAGEMENT

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(a) Interest rate risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate and other credit market fluctuations. A portion of the Company's mortgages, loans and credit facilities are floating rate instruments. From time to time, the Company may enter into interest rate swap contracts or other financial instruments to modify the interest rate profile of its outstanding debt or highly probable future debt issuances without an exchange of the underlying principal amount. The fair value of the Company's interest rate swaps (note 15) and other contracts is a liability of $5.6 million (December 31, 2010 – $0.9 million; January 1, 2010 – $1.2 million) due to changes in interest rates since the inception of the contracts. The fair value of the Gazit America extension option at December 31, 2011 is a liability of $0.1 million (December 31, 2010 – $0.8 million) (Note 6). A 100 basis point increase in the yield curve for these contracts would increase equity by $6.6 million and increase net income via interest expense by $0.2 million (December 31, 2010 – increase the Company's equity and net income via interest expense by $0.1 million). A 100 basis point decrease in the yield curve for these contracts would increase the Company's liability and equity by $7.4 million and decrease net income through an increase in interest expense by $0.5 million (December 31, 2010 – decrease the Company's equity and decrease net income through an increase in interest expense by $0.3 million).

Interest represents a significant cost in financing the ownership of real property. The Company has a total of $1.1 billion (December 31, 2010 – $790.7 million) principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between December 31, 2011 and December 31, 2014 at a weighted average coupon interest rate of 5.86% (December 31, 2010 – 5.81%). If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would respectively increase or decrease by $11.3 million (December 31, 2010 – $7.9 million).

The Company's other loans receivable (current and non-current) earn interest at fixed rates. If the loans were refinanced at 100 basis points higher or lower than the existing rate, the Company's annual interest income, and accordingly equity would respectively increase or decrease by approximately $0.6 million (December 31, 2010 – $0.5 million).

(b) Credit risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable or unwilling to fulfill their lease commitments or loan obligations. The Company mitigates the risk of credit loss by investing in well-located properties in urban markets that attract quality tenants, ensuring that its tenant mix is diversified, and by limiting its exposure to any one tenant. No one tenant represents more than 7% of annualized minimum rent. A tenant's success over the term of its lease and its ability to fulfill its lease obligation is subject to many factors. There can be no assurance that a tenant will be able to fullfill all of its existing commitments and leases up to its expiry date. The Company's maximum exposure to credit risk is limited to the carrying amounts of its financial assets.

The Company's leases typically have lease terms between five and twenty years and may include clauses to enable periodic upward revision of the rental rates.

Future minimum rentals receivable under non-cancellable operating leases as at December 31 are as follows:

(thousands of Canadian dollars)	**2011**
Within 1 year	$ 331,205
After 1 year, but not more than 5 years	1,024,083
More than 5 years	877,376
	$ 2,232,664

(c) Currency risk

The Company maintains its accounts in Canadian dollars. At December 31, 2011, the Company has a US$36.0 million non-revolving loan receivable (December 31, 2010 – US$36.0 million; January 1, 2010 – US$36.0 million) (note 6(a)).

At December 31, 2011, the Company has $35.6 million drawn on its US denominated floating rate revolving credit facility (December 31, 2010 – nil; January 1, 2010 – $37.8 million) (Note 11).

A 1% change in the value of the US dollar at December 31, 2011 and December 31, 2010 would have an insignificant impact on net income or equity.

The fair values of the Company's net working capital items approximate their recorded values at December 31, 2011, December 31, 2010 and January 1, 2010 due to their short-term nature. The fair values of the Company's other financial assets and liabilities are disclosed in notes 6(b), 6(c), 7(a), 7(e), 11, 12, 13 and 15(b).

(e) Liquidity risk

Real estate investments are relatively illiquid. This will tend to limit the Company's ability to sell components of its portfolio promptly in response to changing economic or investment conditions. If the Company were required to quickly liquidate its assets, there is a risk that it would realize sale proceeds of less than the current value of its real estate investments.

An analysis of the Company's contractual maturities of its material financial liabilities and other contractual commitments is set out below:

	Payments Due by Period				
(thousands of Canadian dollars)	2012	2013 to 2014	2015 to 2016	Thereafter	Total
Mortgages					
Scheduled amortization	$ 37,562	$ 60,296	$ 32,075	$ 39,156	$ 169,089
Payments on maturity	111,086	503,927	292,398	327,504	1,234,915
Total mortgage obligations	148,648	564,223	324,473	366,660	1,404,004
Credit facilities	33,826	140,570	—	—	174,396
Senior unsecured debentures	100,000	297,000	125,000	725,000	1,247,000
Interest obligations [1]	152,098	233,959	142,116	137,976	666,149
Land leases	903	1,777	1,572	17,406	21,658
Contractual committed costs to complete current development projects	68,930	16,654	—	—	85,584
Other committed costs	11,531	—	—	—	11,531
Total contractual obligations	$ 515,936	$ 1,254,183	$ 593,161	$ 1,247,042	$ 3,610,322

[1] Interest obligations include expected interest payments on mortgages, credit facilities at December 31, 2011 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

In addition, the Company has contractual commitments with respect to its outstanding accounts payable and other liabilities (note 10) and investment properties. The Company's total estimated costs to complete development projects and inventory are $181.3 million, with $85.6 million contractually committed.

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using undrawn lines of credit; and issuing equity when considered appropriate. As at December 31, 2011, there was $174.4 million (December 31, 2010 – $nil; January 1, 2010 – $42.6 million) of cash advances drawn against the Company's revolving credit facilities.

In addition, at December 31, 2011 the Company has $24.1 million (December 31, 2010 – $18.5 million; January 1, 2010 – $22.4 million) of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

24. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME INFORMATION

Years ended December 31			**2011**			2010
(thousands of Canadian dollars)	**Amount**	**Recovery**	**Amount**	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on available-for-sale marketable securities	$ 580	$ (85)	$ 495	$ 3,144	$ (471)	$ 2,673
Reclassification of gains on available-for-sale marketable securities to net income	(2,306)	371	(1,935)	(1,571)	219	(1,352)
Unrealized losses on cash flow hedges	(4,133)	1,048	(3,085)	—	—	—
Other comprehensive (loss) income	$ (5,859)	$ 1,334	$ (4,525)	$ 1,573	$ (252)	$ 1,321

(b) Accumulated other comprehensive (loss) income

Years ended December 31			2011			2010
(thousands of Canadian dollars)	**Opening Balance January 1 2011**	**Net Change During the Period**	**Closing Balance Dec 31 2011**	Opening Balance January 1 2010	Net Change During the Period	Closing Balance Dec 31 2010
Change in cumulative unrealized gains on available-for-sale marketable securities	$ 2,239	$ (1,440)	$ 799	$ 918	$ 1,321	$ 2,239
Unrealized losses on cash flow hedges	—	(3,085)	(3,085)	—	—	
Accumulated other comprehensive (loss) income	$ 2,239	$ (4,525)	$ (2,286)	$ 918	$ 1,321	$ 2,239

25. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

		Year ended December 31	
(thousands of Canadian dollars)	Note	**2011**	2010
Rent revenue recognized on a straight-line basis		$ (8,490)	$ (9,299)
Gain on disposition of investment properties	20	(211)	(251)
Realized gains on sale of marketable securities	20	(4,320)	(4,361)
Change in cumulative unrealized (losses) gains on marketable securities classified as FVTPL	20	1,296	(253)
Losses on settlement of debt	20	1,486	1,215
Loss on temporary change of conversion privilege of convertible debentures	20	2,501	—
Non-cash compensation expense		3,055	2,785
Cash settlement of restricted share units		(2,380)	(2,899)
Gains on foreign currency exchange	20	(268)	(2)
Deferred taxes	21	126,177	81,321
Unrealized losses on interest rate swaps	20	326	(538)
		$ 119,172	$ 67,718

(b) Net change in non-cash operating items

The net change in non-cash operating assets and liabilities consists of the following:

	Year ended December 31	
(thousands of Canadian dollars)	**2011**	2010
Amounts receivable	$ (3,246)	$ 3,894
Prepaid expenses	1,365	(49)
Trade payables and accruals	(11,305)	12,091
Tenant security and other deposits	5,022	1,403
Other working capital changes	(1,116)	(6,436)
	$ (9,280)	$ 10,903

(c) Changes in loans, mortgages and other real estate assets

(thousands of Canadian dollars)	Year ended December 31 **2011**	2010
Increase in loans and mortgages receivable	$ (14,950)	$ (8,992)
Investment in marketable securities	(135,399)	(58,411)
Proceeds from disposition of marketable securities	138,852	45,457
	$ (11,497)	$ (21,946)

(d) Cash and cash equivalents

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Cash	$ 2,781	$ 31,362	$ 4,190
Term deposits	294	373	358
	$ 3,075	$ 31,735	$ 4,548

26. PROPORTIONATE CONSOLIDATION

The Company is a participant in 13 (December 31, 2010 – 12; January 1, 2010 – 17) partnership, co-ownership and limited liability corporate ventures that own development lands and shopping centres which are proportionately consolidated in these financial statements (collectively the "joint ventures"). The Company's participation in these entities ranges from 33% to 75%.

The following amounts are included in the consolidated financial statements and represent the Company's proportionate interests in the joint ventures:

(thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Non-current assets	$ 227,840	$ 174,399	$ 225,156
Current assets	5,702	4,723	10,067
Total assets	$ 233,542	$ 179,122	$ 235,223
Non-current liabilities	$ 62,064	$ 40,231	$ 87,598
Current liabilities	12,521	25,862	7,690
Total liabilities	$ 74,585	$ 66,093	$ 95,288
Net assets	$ 158,957	$ 113,029	$ 139,935

(thousands of Canadian dollars)	Year ended December 31 **2011**	2010
Revenue	$ 17,905	$ 19,461
Expenses	8,604	8,680
Earnings before increase in value of investment properties, net	9,301	10,781
Increase in value of investment properties, net	8,805	11,578
Net income	$ 18,106	$ 22,359

Cash and cash equivalents held by joint-ventures and proportionately consolidated amount to $3.5 million at December 31, 2011 (December 31, 2010 – $2.1 million; January 1, 2010 – $1.5 million) at the Company's share.

The Company is contingently liable for certain of the obligations of the joint ventures and, generally, all of the net assets of a joint venture are available for the purpose of satisfying the obligations of the joint venture (note 27 (b)).

The Company's share of capital commitments of its joint ventures is as follows:

(thousands of Canadian dollars)	As at December 31 **2011**	2010
Commitments to complete development projects	$ 67	$ 1,300

27. COMMITMENTS AND CONTINGENCIES

(a) The Company is involved in litigation and claims which arise from time to time in the normal course of business. None of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.

(b) The Company is contingently liable, jointly and severally, for approximately $37.6 million (December 31, 2010 – $36.3 million; January 1, 2010 – $51.1 million) to various lenders in connection with loans advanced to its joint venture partners secured by the partners' interest in the co-ownerships.

(c) The Company is contingently liable by way of letters of credit in the amount of $24.1 million (December 31, 2010 – $18.5 million; January 1, 2010 – $22.4 million) issued in the ordinary course of business.

(d) The Company has obligations as lessee under long-term finance leases for land. Annual commitments under these ground leases are approximately $0.9 million (2010 – $0.8 million) with a total obligation of $21.7 million (December 31, 2010 – $18.0 million; January 1, 2010 – $18.8 million).

(e) In two of the Company's shopping centres, the grocery store anchor tenant has a right to purchase its premises on terms that are potentially favourable to the tenants.

(f) The Company has committed to purchase a property in 2012 for $11.5 million. A $2.5 million deposit has been paid with respect to this commitment at December 31, 2011.

28. RELATED PARTY TRANSACTIONS

(a) Major Shareholder

Gazit is the principal shareholder of the Company. Norstar Holdings Inc. is the ultimate controlling party. As of December 31, 2011, Alony-Hetz Properties and Investments Ltd. (Alony-Hetz) also beneficially owns 11.6% (December 31, 2010 – 12.7%) of the common shares of the Company. Alony-Hetz and Gazit have entered into a shareholders' agreement pursuant to which, among other terms, (i) Gazit has agreed to vote its common shares of the Company in favour of the election of up to two representatives of Alony-Hetz to the board of directors of the Company and (ii) Alony-Hetz has agreed to vote its common shares of the Company in favour of the election of the nominees of Gazit as the remaining directors of the Company.

Included in corporate and other amounts receivable are amounts due from subsidiaries of Gazit. Gazit reimburses the Company for certain interest, accounting and administrative services provided to it by the Company. During the year ended December 31, 2011, the total amount recorded as reimbursements totalled $3.1 million (year ended December 31, 2010 – $3.3 million) which primarily consisted of interest on the loan receivable as per note 6(a) of $3.0 million (year ended December 31, 2010 – $3.1 million) and professional services related to activities undertaken for reporting to Gazit of approximately $0.1 million (year ended December 31, 2010 – $0.1 million). Gazit is also a tenant at a property owned by the Company. Total rental payments received for the year ended December 31, 2011 were $0.3 million (year ended December 31, 2010 – $0.2 million).

At December 31, 2011, amounts due from Gazit were $43,000 (December 31, 2010 – $0.1 million; January 1, 2010 – $1.4 million).

On July 18, 2011, the Company acquired a shopping centre with Gazit America. The shopping centre was acquired on a 50/50 joint venture basis for a total purchase price of $84.0 million, including closing costs, at 100%. During 2011, aggregate property and finance related fees of $0.3 million were charged by the Company to the joint venture.

(b) Compensation of key management personnel

Aggregate compensation for directors and key management personnel included in corporate expense is as follows:

	Year ended December 31	
(thousands of Canadian dollars)	**2011**	2010
Salaries and short-term employee benefits	$ 2,278	$ 2,486
Share-based compensation	2,051	2,013
	$ 4,329	$ 4,499

29. SUBSEQUENT EVENTS

(a) Convertible Debentures

On February 8, 2012, the Company announced that it will pay the interest due on March 31, 2012 to holders of its FCR.DB.C, FCR.DB.D, FCR.DB.E, FCR.DB.F and FCR.DB.G convertible unsecured subordinated debentures, by the issuance of common shares. The number of common shares to be issued per $1,000 principal amount of debentures will be calculated by dividing the dollar amount of interest payable by an amount equal to 97% of the volume-weighted average trading price of the common shares of First Capital Realty on the TSX calculated for the 20 consecutive trading days ending on March 26, 2012. The interest payment due is approximately $7.5 million, plus any accrued and unpaid interest on any such debentures converted on or before March 26, 2012.

Subsequent to December 31, 2011, the remaining $19.9 million principal amount of 5.50% Debentures was redeemed at par by the Company on February 15, 2012 or converted by holders prior thereto.

On February 16, 2012, the Company issued $75 million aggregate principal amount of 4.95% convertible debentures due March 31, 2017.

(b) Dividends

The Company announced that it will pay a first quarter dividend of $0.20 per common share on April 12, 2012 to shareholders of record on March 30, 2012.

30. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors and authorized for issue on March 8, 2012.

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Annual Shareholders' Meeting
May 23, 2012
The Design Exchange
234 Bay Street, Toronto, Ontario
at 1:00 pm

Toronto Stock Exchange Listings
Common shares:
FCR

6.25% Convertible Debentures:
FCR .DB.C

5.70% Convertible Debentures:
FCR .DB.D

5.40% Convertible Debentures:
FCR .DB.E

5.25% Convertible Debentures:
FCR .DB.F

5.25% Convertible Debentures:
FCR .DB.G

4.95% Convertible Debentures:
FCR .DB.H

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John Todd, C.A.
Vice President and Chief Accounting Officer

Ralph Huizinga
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