

LOCATION
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The power of location.



Green
Shopping For Everyday Life 

Well Executed and Defined Strategy

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CORPORATE PROFILE

First Capital Realty (TSX: FCR) is Canada's leading owner, developer and manager of well-located, high quality urban retail-centered properties where people live and shop for everyday life. As at December 31, 2013, the Company owned interests in 164 properties, including four ground-up development projects, totalling approximately 24.5 million square feet of gross leasable area and one land site in the planning stage for future retail development. First Capital Realty has an enterprise value of over \$7.3 billion and trades on the Toronto Stock Exchange.

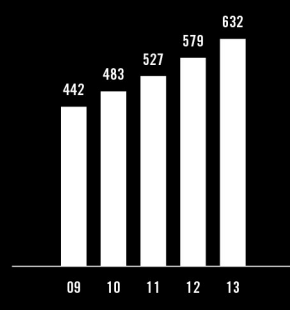
BUSINESS STRATEGY

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:

- undertake selective development, redevelopment and repositioning activities on its properties including land use intensification;
- be focussed and disciplined in acquiring well-located properties, primarily centres where there are value creation opportunities and sites adjacent to existing properties in the Company's target urban markets;
- proactively manage its existing shopping centre portfolio to drive rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength to achieve the lowest cost of capital.

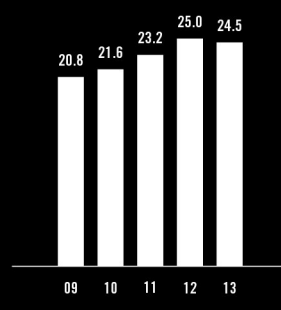
PROPERTY RENTAL REVENUE

(\$ millions)
For the year⁽¹⁾



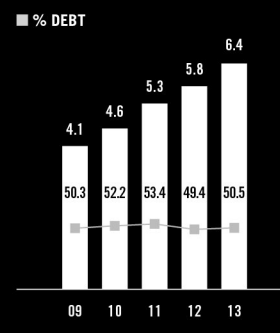
GROSS LEASABLE AREA

(millions of sq. ft.)
At December 31



DEBT TO TOTAL ASSETS⁽²⁾

(\$ 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"). 2012 amounts have been further restated for the adoption of IFRS 10 and IFRS 11.

⁽²⁾ Total assets at invested cost. Debt is a measure not defined by IFRS. Refer to "Capital Structure and Liquidity – Capital Employed" section of this MD&A.

Quality Growth

(\$ millions)	2013	2012
Total assets	\$ 7,596	\$ 7,262
Total equity market capitalization ⁽¹⁾	\$ 3,690	\$ 3,889
Enterprise value ⁽¹⁾	\$ 7,319	\$ 7,301
Debt to total assets (at IFRS value) ⁽¹⁾	42.9%	42.1%
Debt to total assets (at invested cost) ⁽¹⁾	50.5%	49.4%
Debt to enterprise value ⁽¹⁾	44.3%	41.8%
Property rental revenue	\$ 631.6	\$ 579.3
Net operating income ⁽¹⁾	\$ 398.0	\$ 369.1

	2013 (\$ millions)	2012 (\$ millions)	2013 (\$ per share)	2012 (\$ per share)
Funds from operations (FFO) ⁽¹⁾	\$ 215.5	\$ 189.1	\$ 1.03	\$ 1.00
FFO excluding other gains (losses) and (expenses) ⁽¹⁾	\$ 214.5	\$ 189.7	\$ 1.03	\$ 1.00
Weighted average diluted shares for FFO (thousands)			208,877	189,876
Adjusted funds from operations (AFFO) ^{(1) (2)}	\$ 225.2	\$ 195.9	\$ 1.00	\$ 0.95
AFFO excluding other gains (losses) and (expenses) ^{(1) (2)}	\$ 218.5	\$ 192.4	\$ 0.97	\$ 0.93
Weighted average diluted shares for AFFO (thousands)			224,767	206,573

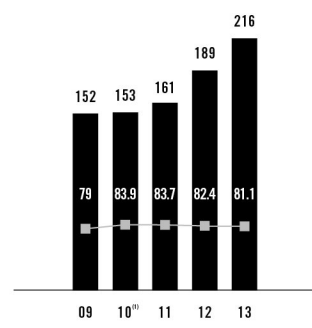
⁽¹⁾ These measures are not defined by IFRS. Refer to Management's Discussion and Analysis.

⁽²⁾ AFFO for the year ended December 31, 2012 has been restated. See "Results of Operations – Funds from Operations and Adjusted Funds from Operations" section of this MD&A for further discussion.

FUNDS FROM OPERATIONS

(\$ millions)

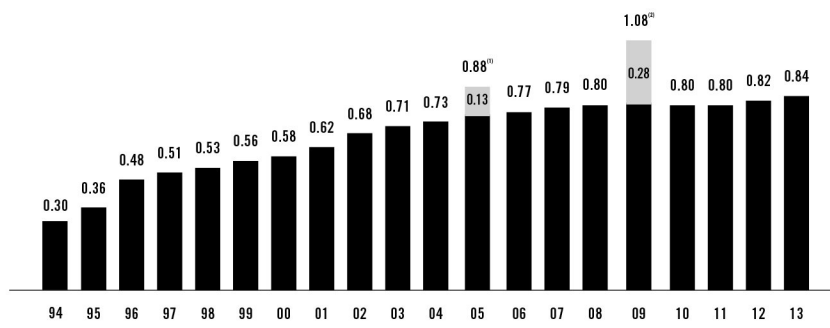
■ % PAYOUT RATIO



⁽¹⁾ 2010 amounts have been restated under IFRS. Amounts previous to 2010 are stated under Canadian GAAP.

20 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.

Strong Operating Platform

A GROWTH STRATEGY APPLIED TO A STABLE BUSINESS

OPERATING HIGHLIGHTS

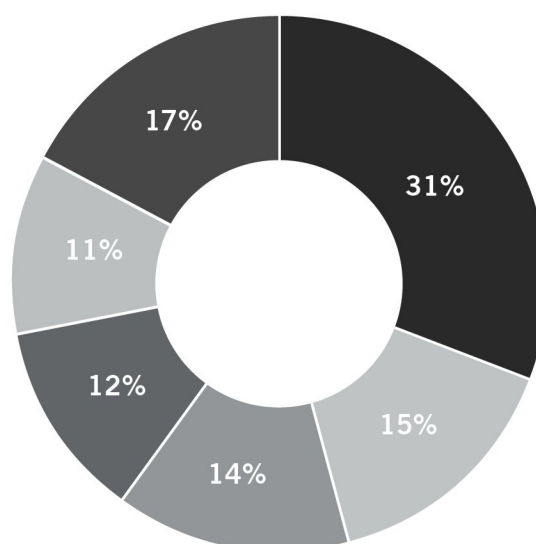
632	Property rental revenue increased 9.0% to \$632 million
398	Net operating income ⁽¹⁾ increased 7.8% to \$398 million
571	Invested \$571 million in development activities, property improvements and acquisitions
17.96	Average rent per occupied square foot increased by 2.6% to \$17.96
3.7	Same-property growth including expansion and redevelopment space increased by 3.7%
97.6	Occupancy percent of stable properties at December 31, 2013

⁽¹⁾ Net operating income is not a measure defined by IFRS. Refer to "Results of Operations – Net Operating Income" section of this MD&A.

SUSTAINABLE CASH FLOW

25	Million square feet of gross leasable area
95	Over 95% of our rents are from urban markets
92	Over 92% of our rents are from shopping centres anchored by supermarkets and/or drugstores
54	Top 40 tenants provide 54.4% of annual minimum rents and occupy 57.3% of the gross leasable area
37	Top 10 tenants provide 37.3% of annual minimum rents and are all investment-grade rated
81	Over 81% of annual minimum rents received from top 40 tenants are from investment-grade rated companies

TENANT PROFILE

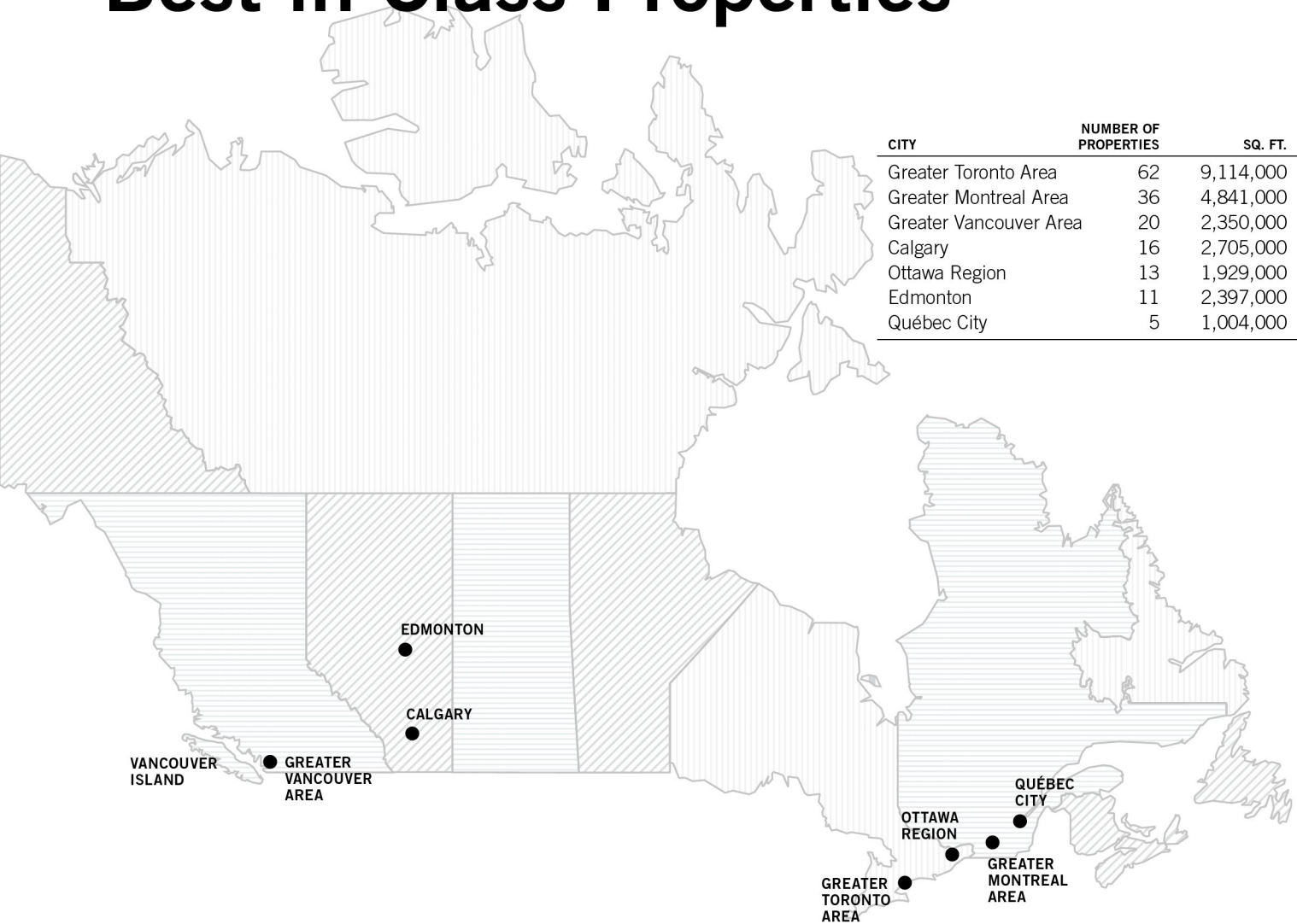


■ Supermarkets, drugstores and liquor stores	31%
■ National and discount retailers	15%
■ Medical, gyms, daycare and other personal uses	14%
■ Restaurants, fast food and coffee shops	12%
■ Banks and governments	11%
■ Other retailers	17%
	100%

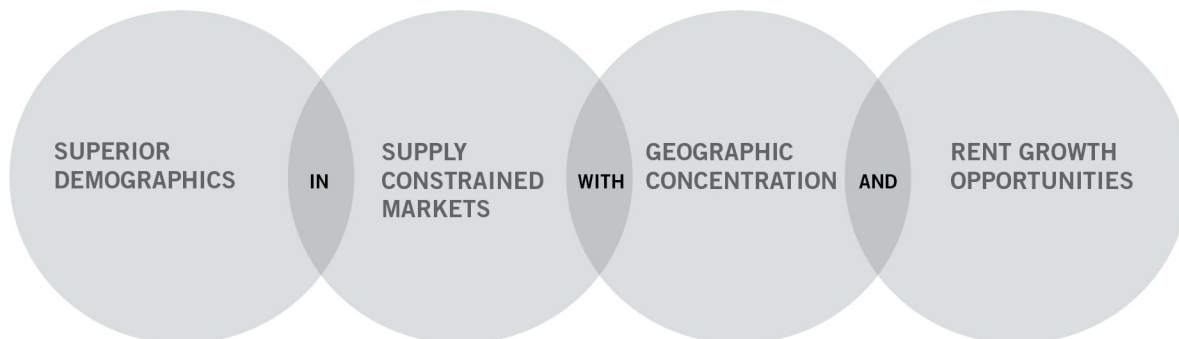
TOP 10 TENANTS



Best in Class Properties



BEST IN CLASS PROPERTIES =



**= LOCATION
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Message from the President & CEO

2013 was another busy and productive year at First Capital Realty. We invested \$571 million and \$2.4 billion, respectively, in acquisitions, development, redevelopment and property expansion programs in 2013 and over the past three years, and disposed of \$260 million and \$660 million, respectively, of non-core assets.

A successful strategy starts with a long-term view and a level-headed approach. In implementing our strategy over the last five years and the past decade, we have employed a general retail real estate philosophy in conjunction with a specific view on how we saw our business and that of our tenants evolving and changing.

As discussed in my previous letter to shareholders, our strategy has been significantly influenced by the following changes we observed in our business environment:

- The most fundamental change is the slow shift of demographics into more urban markets along public transportation lines and major roads;
- Increased retail competition by both domestic and foreign retailers who see the Canadian economy as a growth opportunity;
- Gradual changes in retail format and distribution; bigger may not necessarily be better;
- Increase in personal services desired by consumers with more emphasis on essentials and convenience;
- Online sales and smart phone use are gradually changing how consumers shop; and
- The consolidation that has occurred in the retail landlord landscape.

Let's take a look at how these changes are affecting our business, how well we are positioned to face them, and how our long-term strategy, with some minor adjustments, is giving us a real competitive advantage in the marketplace.

The cornerstone of our strategy has always been summarized by three words: *LocAtion*, *LocAtion*, *LocAtion*. Our 'religious' approach to this basic real estate principle has now become an almost 'cult'-like behaviour. ☺

Every change or risk, and of course every opportunity that this business has presented to us is governed by adhering to this fundamental real estate principle of *LocAtion*. As a result, our investment and disposition activities have been designed, first and foremost, to continue to position our portfolio in the best locations within our targeted urban growth areas. That's where it all begins.

For some time, we have talked openly about the increased competition experienced in Canada by both local and foreign retailers. While in the short-term this competition is extremely good news for both consumers and landlords, it is critical to understand the long-term implications of this evolving trend.

It is clear to us that in a more competitive market there will be greater bifurcation between the best, the good, the not-so-good, and the worst. Over time, this division will manifest itself in an environment where the good retailers will want to hang out with the best landlords located in major urban markets, and the worst will end up hanging out with the not-so-good. This trend also applies to the shopping centre business. Choosing the right assets, investing capital to make them more competitive, and making the right tenant choices are all paramount to our success. Luckily for us, we started almost twenty years ago with a good portfolio, and our job was to make it the best, and we have. I strongly believe we now own the best and most urban shopping centre portfolio in the country, and more importantly, it will get even better and more intensified in the coming years.

Looking ahead, and in particular over the next five years, we will continue to invest almost 100% of our capital exclusively in redevelopment and development activities in our existing and adjacent urban assets. We will only buy what we absolutely cannot live without.

So let's elaborate more on our investment activities.

We believe that investing money in expanding and upgrading our urban assets and tenant offerings provides us with real competitive advantages:



FROM LEFT TO RIGHT

Lynne Brejak, *Vice President, Human Resources*,
Ralph Huizinga, *VP Acquisitions & Development, Western Canada*,
Jodi Shpigel, *SVP, Central Canada*, Brian Kozak, *EVP, Western Canada*,
Karen H. Weaver, *EVP & CFO*, Dori J. Segal, *President & CEO*,
Gregory Menzies, *EVP, Eastern Canada*, Maryanne McDougald, *VP, Property Management*,
Roger Chouinard, *General Counsel & Corporate Secretary*

- We already own the land in the vast majority of cases, so we expect to earn good returns on these investments.
- In addition to delivering good returns, these investments also greatly enhance the competitiveness and the value of our existing assets.
- It is almost impossible to buy any retail property of consequence in the urban markets we are operating in today at an acceptable rate of return. As a result, we build what cannot be bought.
- We are confident that the risk we are taking is lower than market risk, given the maturity and demographics of our portfolio.

I encourage you to look at a sample of the properties we have owned over ten years, including Shops at King Liberty and York Mills Gardens in Toronto; Carrefour St-Hubert on the south shore of Montreal; and McKenzie Towne Centre in Calgary. You will see for yourself how much better, and more productive and intensified they are today due to our capital investments and the strict adherence to our strategy. If you extrapolate these examples to the properties we have targeted for similar investments over the next five years, you will get a sense as to where this Company is headed.

It is also important to know that, although we see all these advantages, we clearly understand our plans come with some challenges in terms of execution and management intensity. Therefore, while we work very hard and take execution risk, we closely measure the level of our investment activities and are careful not to overload the organization or have unrealistic expectations.

At the same time, we are extremely focused on making sure that our tenant mix remains a competitive advantage and not a future liability.

There is great emphasis on ensuring our shopping centres deliver goods and services that are less sensitive to economic cycles or online shopping and cater to what we believe are the social and daily needs of people in the trade area surrounding our properties, both in the short and the longer term.

In order for us, as shareholders, to be here in ten years and to have greatly benefited from our success, we have to maintain our strong

financial position. Our financing strategy, which we have diligently followed for many years, is based on three principles:

- Moderate to low leverage;
- Long and comfortable maturity schedule of our debt; and
- Ample liquidity.

As we look ahead I can assure you that, while we have grown and matured as a Company over the last decade, we have maintained our entrepreneurial spirit and cautious approach to risk. This important culture will continue to govern our actions in the years ahead.

In closing, I want to thank everyone on the First Capital Realty team for their hard work and dedication. Managing the record growth we have achieved has not been easy, but our people have risen to the challenge to make First Capital Realty into what we believe is the best neighbourhood and community shopping centre owner, developer and manager in the country. I also express my sincere appreciation to our tenants, service providers and partners, our investors for their continued trust, and our Board of Directors, under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

Dori J. Segal
President and Chief Executive Officer
February 20, 2014

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MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contents

7	Introduction	63	Loans, Mortgages and Other Real Estate Assets
7	Forward-Looking Statement Advisory	64	Results of Operations
8	Business Overview and Strategy	64	Net Income
16	Outlook and Current Business Environment	64	Reconciliation of Consolidated Statements of Income, as presented, to the Company's Proportionate Interest
18	Corporate Responsibility and Sustainability	65	Funds from Operations and Adjusted Funds from Operations
18	Adoption of New Accounting Standards	69	Net Operating Income
20	Summary Consolidated Information and Highlights	72	Interest and Other Income
21	Business and Operations Review	73	Interest Expense
21	Real Estate Investments	74	Corporate Expenses
21	Investment Property Categories	75	Other Gains (Losses) and (Expenses)
22	Reconciliation of Investment Properties - Shopping Centres, as presented, to the Company's Proportionate Interest	75	Income Taxes
22	Portfolio Overview	76	Capital Structure and Liquidity
32	Valuation of Investment Properties Under IFRS	76	Capital Employed
33	Shopping Centres Valuation Method	78	Credit Ratings
34	Development Land Valuation Method	78	Consolidated Debt and Principal Amortization Maturity Profile
34	Investment Properties — Shopping Centres	79	Mortgages and Credit Facilities
35	Investment Properties — Development Land	81	Senior Unsecured Debentures
35	2013 Acquisitions	82	Convertible Debentures
37	2013 Dispositions	83	Shareholders' Equity
38	Impact of Acquisitions and Dispositions on Continuing Operations	83	Liquidity
38	Investment Properties Classified as Held For Sale	84	Cash Flows
38	Acquisitions and Dispositions Subsequent to December 31, 2013	85	Contractual Obligations
39	2012 Acquisitions	85	Contingencies
42	2012 Dispositions	86	Dividends
43	2013 Investment Property Development and Redevelopment Activities	86	Quarterly Dividend
50	Investment Properties Cost by with Bifurcation of Income Producing and Development Activity Components	86	Summary of Financial Results of Long-Term Debt Guarantors
52	Residential Inventory	88	Related Party Transactions
53	Capital Expenditures on Investment Properties	89	Quarterly Financial Information
55	2013 Leasing and Occupancy	90	Fourth Quarter 2013 Operations and Results
58	2012 Leasing and Occupancy	103	Summary of Significant Accounting Estimates and Policies
60	Lease Maturities	105	Future Accounting Policy Changes
62	Top 40 Tenants	106	Controls and Procedures
		106	Risks and Uncertainties

Management's Discussion and Analysis of Financial Position and Results of Operations

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations for First Capital Realty Inc. ("First Capital Realty" or the "Company") is intended to provide readers with an assessment of performance and summarize the results of operations and financial position for the years ended December 31, 2013 and 2012. It should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2013 and 2012. Additional information, including the current Annual Information Form, is available on the SEDAR website at www.sedar.com and on the Company's website at www.firstcapitalrealty.ca.

All amounts are in Canadian dollars, unless otherwise noted. Historical results and percentage relationships contained in the Company's interim and annual consolidated financial statements and MD&A, including trends which might appear, should not be taken as indicative of its future operations. The information contained in this MD&A is based on information available to Management, and is dated as of February 20, 2014.

First Capital Realty was incorporated in November 1993 and conducts its business directly and through subsidiaries.

FORWARD-LOOKING STATEMENT ADVISORY

Certain statements contained in the "Business Overview and Strategy", "Outlook and Current Business Environment", "Business and Operations Review", "Results of Operations", "Capital Structure and Liquidity", "Summary of Significant Accounting Estimates and Policies" and "Controls and Procedures" sections of this MD&A constitute forward-looking statements. Other statements concerning First Capital Realty's objectives and strategies and Management's beliefs, plans, estimates and intentions also constitute forward-looking statements. Forward-looking statements can generally be identified by the expressions "anticipate", "believe", "plan", "estimate", "project", "expect", "intend", "outlook", "objective", "may", "will", "should", "continue" and similar expressions. The forward-looking statements 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. Forward-looking information involves numerous assumptions such as rental income (including assumptions on timing of lease-up, development coming on line and levels of percentage rent), interest rates, tenant defaults, borrowing costs (including the underlying interest rates and credit spreads), the general availability of capital and the stability of the capital markets, amount of development costs, capital expenditures, operating costs and corporate expenses, level and timing of acquisitions of income-producing properties, number of shares outstanding and numerous other factors. Moreover, the assumptions underlying the Company's forward-looking statements contained in the "Outlook and Current Business Environment" section of this MD&A also include that consumer demand will remain stable, and demographic trends will continue.

Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, Management can give no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed in the "Risks and Uncertainties" section of this MD&A and the matters discussed under "Risk Factors" in the Company's current Annual Information Form from time to time.

Factors that could cause actual results or events to differ materially from those expressed, implied or projected by forward-looking statements, in addition to those factors referenced above, include, but are not limited to: general economic conditions; real property ownership; the availability of new competitive supply of retail properties which may become available either through construction, lease or sublease; First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents; repayment of indebtedness and the availability of debt and equity financing; changes in interest rates and credit spreads; changes to credit ratings; tenant financial difficulties; defaults and bankruptcies; the relative illiquidity of real property; unexpected costs or liabilities related to acquisitions, development and construction; increases in operating costs and property taxes; residential development, sales and leasing; compliance with financial covenants; changes in governmental regulation; environmental liability and compliance costs; unexpected costs or liabilities related to dispositions; challenges associated with the integration of acquisitions into the Company;

uninsured losses and First Capital Realty's ability to obtain insurance coverage at a reasonable cost; risks in joint ventures; matters associated with significant shareholders; geographic concentration of assets; investments subject to credit and market risk; loss of key personnel; and the ability of health care tenants to maintain licenses, certifications and accreditations.

Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. First Capital Realty undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances except as required by applicable securities law.

All forward-looking statements in this MD&A are made as of February 20, 2014 and are qualified by these cautionary statements.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and manager of well-located, high quality urban retail-centered properties where people live and shop for everyday life. As at December 31, 2013, the Company owned interests in 164 properties, including four ground-up development projects, totalling approximately 24.5 million square feet of gross leasable area ("GLA") and one land site 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 the Company's strategic objectives, Management continues to:

- undertake selective development, redevelopment and repositioning activities on its properties including land use intensification;
- be focussed and disciplined in acquiring well-located properties, primarily centres where there are value creation opportunities and sites adjacent to existing properties in the Company's target urban markets;
- proactively manage its existing shopping centre portfolio to drive rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength to achieve the lowest cost of capital.

Shopping for Everyday Life[®]

The Company owns, develops and manages 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.































































Tenant Profile*



Management looks to implement a specific complementary tenant offering at each of its properties to best serve the needs of the local community. The Company is highly focussed on ensuring the competitive position of its assets in various urban and retail trade areas and closely follows demographics and shopping trends for both goods and services.

The Company continues to observe several demographic trends that may affect demand for retail goods and services: first, a younger generation of consumers whose shopping patterns are influenced by wireless communications and on-line business and information; second, an aging population whose needs will increasingly focus on convenience and health related goods and services. Another trend that Management observes relates to lifestyles in urban markets, where consumers choose to incorporate visits to gyms, coffee shops and local restaurants into their everyday life. In Management's view, shopping centres and mixed-use properties located in urban markets with tenants providing daily necessities, including non-discretionary services and other personal services, will be less sensitive to both economic cycles and the current demographic trends, thus providing stable and growing cash flow over the long term.

At December 31, 2013 the tenant store count and percent of annual minimum rents by tenant type at the Company's 164 properties are as follows:

	# of stores	% of rent	tenants
Supermarkets ⁽¹⁾	124	17.0%	     
Liquor Stores	89	3.2%	     
Banks & other Financial Institutions	307	9.6%	       
Drugstores	133	9.3%	     
Medical, Personal Services and Professional	1,282	12.6%	     
Fitness	65	2.7%	    
National & Discount Retailers	187	14.8%	        
Casual Dining & QSR	587	7.2%	         
Daycare Centres and Schools	54	0.6%	     

As of December 31, 2013

⁽¹⁾ 43 of 124 supermarkets have a pharmacy

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 areas; the greater Vancouver area, including Vancouver Island; the greater Montreal area; the Ottawa and Gatineau region; and Québec City. Approximately 95% 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*



As at December 31, 2013, the Company's property portfolio demographics (in a five kilometre radius) by market size, based on annual minimum rents are as follows:



Acquisitions

Management seeks to acquire well-located, high quality urban retail-centered properties in the Company's target urban markets focussing on the quality, sustainability and growth potential of rental income. These properties are acquired when 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, Management will look to acquire adjacent or nearby properties. These adjacent properties allow the Company to provide maximum flexibility to its tenant base to meet 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 product and service offering for consumers. Management believes that its adjacent site acquisitions result in a better mix of goods and services offered and, ultimately, 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 acquisitions, in both existing markets and markets where the Company does not yet have a presence.

The Company also recycles its capital to fund new investments by selling assets in certain markets that are no longer aligned with its core strategies.

Development, Redevelopment and Land Use Intensification

The Company pursues selective development and redevelopment activities including land use intensification projects, primarily on its own, but also with 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 shopping 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 land use intensification opportunities. Redevelopment projects are carefully managed to minimize tenant downtime. Typically, tenants 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 land use 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 land use 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 land use intensification activities to increase over the next several years. To a lesser degree, the Company develops new properties on ground-up sites and typically has at least one ground-up development project in the planning stage or underway in each region.

Investments in redevelopment and development projects are generally less than 10% of the Company's total assets (at fair value) 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.

These development and land use intensification activities provide the Company with an opportunity to use its existing platform to sustain and increase cash flow 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 that 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 the Company's 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, legal, construction management and tenant co-ordination functions, are directly managed and executed by experienced real estate professionals. Corporate financing, human resources, and most of senior management are centralized at the Company's head office location in Toronto. Property management and operations are centralized in order to ensure that consistent standards of operation and maintenance are achieved. Real estate acquisitions, development and redevelopment, leasing, and construction are executed through local teams located in 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, the Company's management team possesses significant retail experience, which contributes to the Company's in-depth knowledge of its tenants and market trends.

The Company operates solely in Canada, in three operating regions, reporting to a regional executive, as follows: Eastern region, which primarily includes operations in Quebec and the Ottawa area; Central region, which includes the Company's Ontario operations, excluding Ottawa; and Western region, which includes operations in Alberta and British Columbia. On July 1, 2013, the Company completed a managerial realignment of its Ottawa properties from the Central region to the Eastern region that resulted in a change to these segments. Prior periods have been restated to reflect this change. This change in segment reporting did not have an impact on the Company's consolidated results for any periods.

Increasing Efficiency and Productivity of Operations

The Company continues to focus on operating efficiency as it grows its business. Management is continuously implementing and improving 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.

Cost of Capital

The Company seeks to maintain financial strength to achieve 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 capital composition of senior unsecured debt, mortgage debt, convertible debentures and equity in its capital base provides financing flexibility 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 are 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 to finance its growth and strengthen its financial position.

On November 14, 2012, DBRS Limited ("DBRS") upgraded the ratings of the Company's senior unsecured debentures to BBB(high), and on November 20, 2012, Moody's upgraded these debentures to Baa2, giving the Company the highest rating on unsecured debentures for a real estate entity in Canada (presently held by the Company and one other public Canadian real estate entity). Management believes that this, along with the quality of the Company's real estate portfolio and other business attributes, contribute to reducing the cost of capital.

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. These metrics are discussed below:

FFO and AFFO

The Company's FFO and AFFO have shown consistent performance, resulting primarily from growth in net operating income. FFO and AFFO for the years ended December 31, 2013 and 2012 are as follows:

<i>Year ended December 31</i>		2013	2012
FFO per diluted share ⁽¹⁾	\$	1.03	\$ 1.00
FFO per diluted share excluding other gains (losses) and (expenses)	\$	1.03	\$ 1.00
AFFO per diluted share ^{(1) (2)}	\$	1.00	\$ 0.95
AFFO per diluted share excluding gains (losses) and (expenses) ⁽²⁾	\$	0.97	\$ 0.93

⁽¹⁾ FFO and AFFO are measures of operating performance that are not defined by IFRS. See the "Results of Operations - Funds from Operations and Adjusted Funds from Operations" section of this MD&A.

⁽²⁾ AFFO for the year ended December 31, 2012 has been restated. See "Results of Operations - Funds from Operations and Adjusted Funds from Operations" section of this MD&A for further discussion.

The Company achieved growth in FFO and AFFO while continuing disciplined execution of its strategy, including:

- development and redevelopment activities, which sometimes result in lower going-in yields than a stable, more mature portfolio carries, in order to best position properties for the expected growth in returns;
- acquiring properties in new retail trade areas and buildings adjacent to existing shopping centres that are well-situated, add strategic value and/or operating synergies, and are located in urban markets with strong demographics. Typically they do not provide material accretion in the immediate term;
- capital recycling from dispositions of non-core assets where properties sold typically had higher short-term yields than those in the Company's core urban portfolio;
- the Company's unsecured debt strategy and commitment to stagger and extend its maturities, which historically tend to increase interest costs compared to secured and short-term financing; and
- investing in the business infrastructure to increase the Company's efficiency of operations and the quality of the management platform to facilitate growth.

Management believes that these activities are fundamental to a long-term strategy of a best-in-class shopping centre company and will maximize shareholder value by generating sustainable cash flow and capital appreciation in its shopping centre portfolio over the long term.

Leverage

The key leverage ratios demonstrate that the Company has continued to maintain a conservative balance sheet with relatively stable ratios while growing the portfolio. Management believes that maintaining financial strength will continue to provide the Company with financial flexibility, which is critical against a backdrop of changing debt and equity markets.

<i>Year ended December 31</i>		2013	2012
Debt to total assets – at year end ⁽¹⁾		42.9%	42.1%
Debt to total assets (based on unsecured debt covenants) ⁽¹⁾		44.6%	45.3%
Debt to enterprise value – at year end ⁽¹⁾		44.3%	41.8%
Debt/EBITDA ⁽¹⁾		8.32	8.58
Debt/EBITDA – run rate ⁽¹⁾		8.03	7.89

⁽¹⁾ For further discussion refer to the "Capital Structure and Liquidity" section of this MD&A. Debt, EBITDA, enterprise value and run rate are not defined by IFRS. Refer to "Capital Structure and Liquidity - Capital Employed" section of this MD&A.

In addition to these annual metrics, FFO, AFFO and leverage, the Company looked to achieve its long term objectives through the following activities in 2013 and 2012:

- development, redevelopment and repositioning activities including land use intensification;
- selective acquisitions of strategic assets and adjacent sites;
- selective dispositions of non-core assets;
- proactive portfolio management that resulted in higher rent growth;
- increasing efficiency and productivity of operations; and
- maintain financial strength to achieve the lowest cost of capital.

The Company's activities in 2013 and 2012 for each of the above are summarized below:

Development, redevelopment and land use intensification activities

The Company continued to invest in development, redevelopment and repositioning of its existing properties and residential inventories, as well as ongoing portfolio capital improvements, which include access, facades, lighting, signage, roofing, parking lots, bicycle racks and pedestrian amenities. The investments in these activities during 2013 and 2012 totalled \$282 million and \$335 million, respectively. Development investments have decreased in 2013 due to the completion of a number of projects in the year. However, the Company has a number of projects in the pre-development stage in which investment will be made over the next two to five years. The Company's development activities are typically on existing or adjacent properties rather than on ground-up sites and may include additional retail use, ancillary office uses and, in certain projects, residential density. Currently, the Company has two residential density projects underway, and three more in the pre-development/entitlements stage with municipalities. The residential density projects are ancillary to the Company's retail projects and are typically completed with a partner.

The Company completed and brought on line gross leasable area of 518,000 square feet and 853,000 square feet during 2013 and 2012, respectively. As at December 31, 2013, 497,000 square feet were under development.

Selective acquisitions

In 2013, the Company invested \$225 million in acquisitions compared to \$794 million in 2012. The Company expanded within its urban markets to two new retail nodes located in Victoria and Vancouver. The Company has also increased its footprint in its existing retail nodes where it already has a property through the acquisition of 17 adjacent sites.

<i>Year ended December 31</i>	2013	2012
Total investment in acquisitions (millions)	\$ 225	\$ 794
Income-producing properties		
Number of properties in new retail trade areas	2	16
Square feet (thousands)	108	1,494
Additional space and adjacent land parcels in existing properties		
Number of acquisitions	17	28
Square feet (thousands)	178	903
Acres	3.6	7.4
Additional interests in the existing portfolio		
Number of additional interests	—	1
Square feet (thousands)	—	150
Development lands		
Number of parcels	5	12
Acres	9.0	8.0

Dispositions

During 2013, the Company recycled capital through the dispositions of 10 shopping centres comprising 1.1 million square feet and six adjacent parcels totalling 13.9 acres as well as other real estate investments for gross proceeds of \$260 million. The proceeds were used to fund further investment in the Company's properties in core urban markets. The 2012 dispositions comprised 1.2 million square feet, two land parcels and other real estate assets for gross proceeds of \$340 million. This capital recycling program is expected to continue into 2014 and 2015, subject to market conditions.

Increasing Efficiency and Productivity of Operations

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

<i>Year ended December 31</i>	2013	2012
Corporate expenses, excluding non-cash compensation		
As a percent of rental revenue	3.5%	3.6%
As a percent of total assets	0.30%	0.29%
GLA (weighted average) per average full time employee	60,000	63,000
NOI per average full time employee - run rate (thousands of dollars)	\$ 1,011	\$ 1,014

The 2013 corporate expenses continue to remain stable relative to 2012, rental revenues and total assets.

The 2013 GLA and NOI productivity measures as compared to 2012 reflect the impact of investment in development activities, which are not yet income-producing, including the staff involved in the management and execution of these activities. The costs related to development activities including staff costs, are typically capitalized until such activities are completed. These two productivity measures are expected to fluctuate based on the Company's level of development activity.

Capital access and cost

The Company utilized multiple sources of debt and equity capital to finance its growth and replace maturing debt financings in the year, demonstrating its successes in ensuring access to capital to fund its growth. The pricing reduction on the spread component was a result of a combination of market factors and internal factors, such as the continued quality growth of the Company and higher credit ratings on the Company's unsecured debentures.

<i>Year ended December 31</i>	2013		2012	
	Amount (millions of dollars)	Pricing (weighted average)	Amount (millions of dollars)	Pricing (weighted average)
Sources of capital				
Canadian credit facility capacity – unsecured	\$ 600	BA + 1.325%	\$ 500	BA + 1.50%
Canadian credit facilities capacity – secured	\$ 75	BA + 1.25%	\$ 75	BA + 1.50%
New 10-year mortgage financings in the year	\$ —	—%	\$ 181	3.86%
Senior unsecured debentures issued	\$ 450	3.97%	\$ 475	4.31%
Convertible debentures issued	\$ 58	4.45%	\$ 128	4.87%
Equity ⁽¹⁾	\$ 30	16.84	\$ 498	17.59

⁽¹⁾ Includes issuance of common shares, payment of interest on convertible debentures, conversion of convertible debentures and exercises of options and warrants, net of share issue costs.

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.

Since 2001, First Capital Realty has successfully grown its business across the country, focussing on key urban markets, reducing leverage and achieving the highest credit rating on its unsecured debt for a publicly traded real estate entity in Canada (presently held by the Company and one other public Canadian real estate entity), while dramatically enhancing the quality of its portfolio and generating modest accretion in funds from operations. The Company will continue to grow its business and portfolio of high quality properties in urban markets in the context of the acquisition, financing, demographics, shopping trends and tenant dynamics in Canada, and its long-term value creation strategy. The Company defines a quality property by its location, taking into consideration the demographics and the retail supply and demand factors in each property trade area, and the ability to grow the property cash flow.

There are three market dynamics on which the Company is focussed over the long term in the retail and urban markets in Canada. First, the Company is observing a surge in entry and expansion into the Canadian retail landscape from major U.S. retailers, including Whole Foods, 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. Second, the Company is focussed on changes in consumer habits and preferences occurring in the industry. These changes include the younger generation of consumers whose shopping patterns are significantly influenced by wireless communications and on-line business and information; and an aging population whose needs will increasingly focus on convenience and health-related goods and services. Another trend that Management observes relates to lifestyles in urban markets, where consumers choose to incorporate visits to gyms, coffee shops and local restaurants into their everyday life. There is also a shift in consumer demand driven by pockets of ethnic consumers as a result of Canada's immigration policies. Management observes retailers incrementally responding to these consumer changes and works to support the retailer response through its tenant mix and box size needs. Last, there have been two corporate transactions with four of the Company's tenants, Loblaws and Shoppers Drug Mart (not yet completed), as well as Sobey's and Safeway Canada (completed), which will bring further tenant consolidation into the Canadian market. As a result, the Company is highly focussed on ensuring the competitive position of its shopping centres in various retail trade areas. The Company will continue to closely follow all demographics and goods and services shopping trends and retailer responses in addition to the retail competition. The leasing strategy takes these factors into consideration in each trade area and the Company's proactive management strategy helps ensure its properties remain attractive to high quality tenants and their customers.

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's development activities primarily comprise redevelopments and expansions of existing properties in established retail trade areas in urban markets. These projects typically carry risk associated with project execution rather than market risk due to the complexity of developing properties in dense urban markets. The Company has a long and successful track record of these development activities and will continue to carefully manage the risks associated with such projects.

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

The Company continues to carefully scrutinize its properties to ensure that they meet the quality criteria it has adopted, and will occasionally sell properties. This allows the Company to recycle capital back into its urban redevelopment projects where population, rent growth and consumer trends present the best opportunities for long-term growth.

Canada's economy is growing at a relatively modest pace and uncertainty remains in spite of signs of positive growth in the United States. There remains a lot of uncertainty in the global economic environment. The announcements by the United States Federal Reserve Bank related to moderating purchases of its bonds has recently impacted the long term cost of debt. However, both the equity and long-term debt markets are accessible, though pricing has increased. 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 continuing to extend the term and stagger the maturity of its debt.

Currently, financing is readily available in Canada from both financial institutions and the capital markets, particularly for entities with good credit, including large real estate companies. However, relative to pricing currently sought by vendors of high quality, well-located urban properties that meet the Company's criteria, spreads also continue to be very tight and have tightened even further. In addition, well-located urban properties rarely trade in the market and attract significant competition. As a result, the urban property acquisitions completed by the Company typically do not provide material accretion to the Company's results in the immediate term. However, 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. The Company has been recycling its capital by selling assets in certain markets that are no longer aligned with its core strategies and will continue to do so, subject to market conditions.

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 six areas to achieve its objectives through 2014 and into 2015:

- development, redevelopment and repositioning activities including land use intensification;
- selective acquisitions of strategic assets and adjacent sites;
- selective dispositions of non-core assets;
- proactive portfolio management that results in higher rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength to achieve the lowest cost of capital.

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 2013 year end press release dated February 20, 2014, as filed on SEDAR at www.sedar.com, for a discussion of the Company's 2014 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 the Company believes 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 the Company's properties across Canada. In May 2006, the Company embarked on the path towards sustainability with a 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. Since then, the Company has published Corporate Responsibility and Sustainability ("CRS") Reports for 2010, 2011 and 2012. These CSR reports comply 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 at December 31, 2013, 44 projects at 28 properties comprising over 1.0 million square feet of GLA were certified to LEED standards. Another 75 projects at 46 properties comprising over 2.3 million square feet of GLA are under development, in the process of construction or awaiting LEED certification.

Reducing energy and water consumption is also a key part of the sustainability strategy, and the Company continues to implement energy and water conservation measures, such as retrofitting lighting and water fixtures to more efficient technology. All of these initiatives enhance the properties' environmental performance and many of them reduce operating costs, benefiting the Company's tenants and shareholders.

The people at First Capital Realty remain the 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 the Company's investors, tenants, employees and the communities it serves.

Most importantly, Management strives to maintain the highest levels of integrity and ethical business practices in all that it does. The Company's governance structure, Code of Conduct and Ethics, and all of 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.

Note that the square footage listed in this MD&A as being developed to LEED certification may not match the square footage registered for LEED certification. Furthermore, the associated tenants premises may or may not be part of a LEED application.

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

ADOPTION OF NEW ACCOUNTING STANDARDS

The consolidated financial statements for the year ended December 31, 2013 have been prepared by applying the same accounting policies and methods of computation as compared with the most recent audited annual consolidated financial statements, except for the adoption of IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements" ("IFRS 11"), IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), and IFRS 13, "Fair Value Measurement" ("IFRS 13").

The Company was required to adopt each of the standards below on January 1, 2013:

(a) Consolidated financial statements and joint arrangements

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 should be included in the consolidated financial statements of the Company. The standard also sets out the

accounting requirements for the preparation of consolidated financial statements. The standard has been applied retrospectively to the prior periods presented.

Prior to January 1, 2013, the Company's interests in joint arrangements for which it had joint control were accounted for using the proportionate consolidation method. The Company combined its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's consolidated financial statements.

Subsequent to January 1, 2013, IFRS 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 venturer 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 by recognizing the venturer's right to assets and obligations for liabilities. The standard has been applied retrospectively to the prior periods presented.

The Company has assessed the nature of its joint arrangements and determined them to be joint operations, with the exception of a joint arrangement classified as a joint venture. In addition, certain arrangements previously considered subsidiaries are now treated as joint operations. The Company recognizes its interest in the joint venture's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share of its net assets, less distributions received and less any impairment in value of individual investments. The impact of the Company's adoption of IFRS 10 and IFRS 11 on the consolidated balance sheet as at December 31, 2012 is a decrease in total assets of \$57.2 million, decrease in total liabilities of \$42.1 million, decrease in non-controlling interest of \$14.6 million and decrease in shareholders' equity of \$0.4 million.

The impact of the Company's adoption of IFRS 10 and IFRS 11 on the consolidated statement of income for 2012 is as follows:

<i>(thousands of dollars)</i>	
Increase (decrease)	Year ended December 31, 2012
Net operating income	
Property rental revenue	\$ (3,837)
Property operating costs	(1,433)
Net operating income	(2,404)
Change in value of investment properties, net	(4,901)
Share of profit from joint venture	7,287
Other items, net	(18)
Net income attributable to common shareholders	\$ (36)

There was no material impact on per share amounts.

The impact of the Company's adoption of IFRS 10 and IFRS 11 on the consolidated statement of cash flows for the year ended December 31, 2012 is as follows:

<i>(thousands of dollars)</i>	Increase (decrease)
Cash provided by operating activities	\$ 13,242
Cash used in financing activities	(20,477)

Prior period comparative information has been restated, where applicable throughout this MD&A, for the effects of the adoption of IFRS 10 and IFRS 11 as noted above. Refer to Note 3 to the consolidated financial statements for the year ended December 31, 2013 for further discussion.

(b) Fair value measurement

The Company has adopted IFRS 13 prospectively from January 1, 2013. The effects of the adoption are discussed further in the “Business and Operations Review - Valuation of Investment Properties Under IFRS” section of this MD&A.

Management has determined that no material change in the value of investment properties was required as a result of the application of this standard.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

<i>As at December 31</i>			
<i>(thousands of dollars, except other financial data)</i>			
	2013	2012	2011 ^{(7) (8)}
Operations Information			
Number of properties	164	175	169
GLA (square feet)	24,462,000	24,969,000	23,227,000
Occupancy – same property – stable ⁽¹⁾	97.6%	97.6%	97.5%
Total portfolio occupancy	95.5%	95.6%	97.3%
Pipeline of development and adjacent land (GLA) ⁽²⁾	3,181,000	3,514,000	3,092,000
Average rate per occupied square foot	\$ 17.96	\$ 17.51	\$ 16.81
GLA developed and brought on line year-to-date (square feet)	518,000	853,000	514,000
Same property – stable NOI ⁽³⁾			
– increase over prior year	2.7%	1.4%	2.0%
Total same property NOI ⁽³⁾			
– increase over prior year	3.7%	2.3%	2.5%
Financial Information			
Investment properties – shopping centres	\$ 7,126,008	\$ 6,849,078	\$ 5,765,814
Investment properties – development land	\$ 166,043	\$ 127,405	\$ 98,554
Total assets	\$ 7,596,255	\$ 7,261,617	\$ 6,077,401
Mortgages and credit facilities	\$ 1,366,583	\$ 1,597,234	\$ 1,568,882
Senior unsecured debentures payable	\$ 1,861,953	\$ 1,469,073	\$ 1,240,594
Convertible debentures payable	\$ 374,012	\$ 318,794	\$ 282,328
Shareholders' equity	\$ 3,319,370	\$ 3,245,168	\$ 2,511,440
Capitalization and Leverage			
Shares outstanding (in thousands)	208,356	206,546	178,225
Enterprise value ⁽⁴⁾	\$ 7,319,000	\$ 7,301,000	\$ 6,206,000
Debt to total assets ^{(4) (5)}	42.9%	42.1%	46.6%
Debt to enterprise value ^{(4) (5)}	44.3%	41.8%	45.5%
Debt to EBITDA – based on run rate on components of EBITDA ⁽⁴⁾	8.03	7.89	8.07
Weighted average maturity on mortgages and senior unsecured debentures (years) ⁽⁶⁾	5.3	5.3	4.5

<i>Year ended December 31</i>				
<i>(thousands of dollars, except per share and other financial data)</i>				
	2013		2012	2011 ⁽⁸⁾
Revenues, Income and Cash Flow				
Revenues	\$ 642,106	\$	587,965	\$ 534,219
Net operating income ⁽³⁾	\$ 398,010	\$	369,133	\$ 340,088
Corporate expenses, excluding non-cash compensation				
As a percentage of rental revenue	3.5%		3.6%	3.2%
As a percentage of total assets	0.30%		0.29%	0.28%
Increase in value of investment properties, net	\$ 56,086	\$	286,950	\$ 466,214
Net income attributable to common shareholders	\$ 214,863	\$	392,923	\$ 548,932
Net income per share attributable to common shareholders (diluted)	\$ 1.01	\$	1.98	\$ 3.00
Adjusted cash flow from operating activities ⁽⁴⁾	\$ 227,890	\$	197,348	\$ 179,249
Dividends				
Regular dividends	\$ 175,092	\$	159,157	\$ 136,186
Regular dividends per common share	\$ 0.84	\$	0.82	\$ 0.80
Funds from Operations ("FFO") ⁽³⁾				
FFO	\$ 215,543	\$	189,081	\$ 161,302
FFO per diluted share	\$ 1.03	\$	1.00	\$ 0.96
FFO excluding other gains (losses) and (expenses)	\$ 214,528	\$	189,651	\$ 162,424
FFO per diluted share excluding other gains (losses) and (expenses)	\$ 1.03	\$	1.00	\$ 0.96
Adjusted Funds from Operations ("AFFO") ⁽³⁾⁽⁹⁾				
AFFO	\$ 225,210	\$	195,928	\$ 171,957
AFFO per diluted share	\$ 1.00	\$	0.95	\$ 0.91
AFFO excluding other gains (losses) and (expenses)	\$ 218,543	\$	192,449	\$ 167,369
AFFO per diluted share excluding other gains (losses) and (expenses)	\$ 0.97	\$	0.93	\$ 0.88

⁽¹⁾ Same property – stable comparative information is revised to reflect property categories consistent with current period status.

⁽²⁾ Square footage does not include potential development on properties held through the Company's Main and Main Developments subsidiary. See the "Business and Operations Review - 2013 Investment Property Development and Redevelopment Activities" section of this MD&A.

⁽³⁾ NOI, FFO and AFFO are measures of operating performance that are not defined by IFRS. See the "Results of Operations" section of this MD&A.

⁽⁴⁾ Enterprise value, debt, EBITDA, run rate and adjusted cash flow from operating activities (adjusted for the net change in non-cash operating items and expenditures on residential development inventory) are measures not defined by IFRS. See the "Capital Structure and Liquidity" section of this MD&A.

⁽⁵⁾ Calculated with the joint venture and Main and Main Developments proportionately consolidated and cash balances reducing debt.

⁽⁶⁾ Weighted average term to maturity is calculated net of cash balances as at the end of the period.

⁽⁷⁾ 2011 balance sheet data reflects January 1, 2012 adoption of IFRS 10 and IFRS 11.

⁽⁸⁾ 2011 income-related data has not been restated for adoption of IFRS 10 and IFRS 11.

⁽⁹⁾ AFFO for the year ended December 31, 2012 has been restated. See "Results of Operations - Funds From Operations and Adjusted Funds From Operations" section of this MD&A for further discussion.

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

Investment Property Categories

The Company categorizes its properties for the purposes of evaluating operating performance including same property NOI. This enables the Company to reflect better its development, redevelopment and repositioning activities on its properties, including land use intensification, and its completed and planned disposition activities. In addition, the Company revises comparative information to reflect property categories consistent with current period status. The property categories are as follows:

Investment properties – shopping centres: Same property consisting of:

Same property – stable – includes stable properties where the only significant activities are leasing and ongoing maintenance. Properties that will be undergoing a redevelopment in a future period, including adjacent parcels of land, and those having planning activities underway are also in this category until such development activities commence. At that time, the property will be reclassified to either same property with incremental redevelopment and expansion activities or to major redevelopment.

Same property with incremental redevelopment and expansion – includes properties that are largely stable, including adjacent parcels of land, but are undergoing incremental redevelopment or expansion activities (pads or building extensions) which intensify the land use. Such redevelopment activities often include facade, parking, lighting and building upgrades.

Major redevelopment – includes properties in planning or undergoing multi-year redevelopment projects with significant intensification, reconfiguration and building and tenant upgrades.

Ground-up development – consists of new construction, either on a vacant land parcel typically situated in an urban area or on an urban land site with conversion of an existing vacant building to retail use.

Acquisitions and dispositions – includes properties and properties adjacent to the Company's existing properties included in other categories that were acquired during the period. Dispositions include information for properties disposed of in the period.

Investment properties classified as held for sale – represents those properties classified on the consolidated balance sheets which meet the criteria as described in the "Business and Operations Review - Investment Properties Classified as Held For Sale" section of this MD&A.

Investment properties – development land: comprises land sites where there are no development activities underway, except for those in the planning stage.

The Company has applied the above property categorization to the fair value, capital expenditures, leasing and occupancy activity on its shopping centre portfolio, and to its same property NOI analysis to further assist in understanding the Company's real estate activities and its operating and financial performance.

Reconciliation of Investment Properties – Shopping Centres, as presented, to the Company's Proportionate Interest

Proportionate interest is not an IFRS measure, but is defined by Management as the Company's proportionate share of revenues, expenses, assets and liabilities in all of its real estate investments. This presentation is reflected throughout this MD&A to indicate the Company's equity accounted joint venture and the related share of net income from its equity accounted joint venture on a proportionately consolidated basis at the Company's ownership percentage in the joint venture.

The following table provides the reconciliation of the Company's investment properties – shopping centres, as presented in its consolidated financial statements to proportionate interest.

<i>(millions of dollars)</i>	December 31, 2013	December 31, 2012
Fair value of investment properties – shopping centres, as presented	\$ 7,126	\$ 6,849
Investment in joint venture: fair value of investment properties – shopping centres	49	49
Proportionate interest in fair value of investment properties – shopping centres	\$ 7,175	\$ 6,898

Portfolio Overview

As at December 31, 2013, the Company had interests in 164 income-producing properties, that were 95.5% occupied with a total GLA of 24.5 million square feet. This compares to 175 income-producing properties which were 95.6% occupied with a total GLA of 25.0 million square feet as at December 31, 2012. The average size of the shopping centres is approximately 150,000 square feet, with sizes ranging from approximately 20,000 to over 575,000 square feet.

The same property portfolio includes shopping centres categorized in same property - stable and same property with incremental redevelopment and expansion. The same property portfolio is comprised of 122 properties totalling 17.5 million square feet of GLA with a fair value of \$4.9 billion. These properties represent 74% of the Company's property count, 72% of its GLA and 67.5% of its fair value. During 2013, these properties generated \$277.9 million of NOI which is 69% of the Company's total NOI for 2013. The stability of the portfolio is reflected in the high occupancy of 97% at December 31, 2013, up from 96.8% for the comparative period in 2012.

The Company's proportionate interest in its shopping centre portfolio based on property categorization as at December 31, 2013 is summarized as follows:

	December 31, 2013					December 31, 2012				
	Number of Properties	Gross Leasable Area (000s sq. ft.)	Fair Value	Occupancy %	Weighted Average Rate per square foot	Number of Properties	Gross Leasable Area (000s sq. ft.)	Fair Value	Occupancy %	Weighted Average Rate per square foot
<i>(millions of dollars, except other data)</i>										
Same property – stable	92	11,935	\$ 3,282	97.6%	\$ 17.91	92	11,934	\$ 3,164	97.6%	\$ 17.73
Same property with incremental redevelopment and expansion	30	5,605	1,568	95.6%	17.91	30	5,531	1,450	95.1%	17.65
Total same property	122	17,540	4,850	97.0%	17.91	122	17,465	4,614	96.8%	17.70
Major redevelopment	16	2,988	994	91.2%	18.50	16	2,850	944	92.9%	18.35
Ground-up development	4	674	320	98.2%	22.80	4	508	250	95.8%	22.25
Acquisitions – 2013 ⁽¹⁾	2	287	186	94.0%	27.92	—	—	—	—	—
Acquisitions – 2012 ⁽¹⁾	13	2,161	688	90.9%	16.92	16	2,255	709	91.1%	16.82
Investment properties classified as held for sale	7	812	137	91.3%	11.87	7	810	161	94.5%	11.75
Dispositions – 2013	—	—	—	—	—	10	1,081	220	93.5%	15.38
Total	164	24,462	\$ 7,175	95.5%	\$ 17.96	175	24,969	\$ 6,898	95.6%	\$ 17.51

⁽¹⁾ Acquisitions square footage and fair value includes 16 adjacent properties and land parcels (2012 – 28 adjacent properties and land parcels) to the Company's existing properties reflected in other categories in the table.

The balance of the Company's real estate assets are comprised of shopping centres with significant value enhancement opportunities that are in various stages of redevelopment, shopping centres and properties adjacent to existing properties acquired in 2013 or 2012, and properties held for sale. The Company pursues selective development and redevelopment activities including land use intensification projects, primarily on its own, but also with partners, in order to achieve a better return on its portfolio over the long term. The redevelopment activities are focussed primarily on older, well-located shopping 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 land use intensification opportunities.

A summary of the Company's shopping centre portfolio by property count and status of value enhancement activities follows:

	Same property – stable	Same property with incremental	Major redevelopment	Ground-up development	Acquisitions – CY and PY	Held for sale	Total	Development land
Stabilized	75	8	—	—	11	7	101	—
At completion	—	7	7	2	—	—	16	—
Active development	—	4	3	2	—	—	9	—
In pre-development	—	3	6	—	—	—	9	—
Early planning stages	17	8	—	—	4	—	29	1
Total property count	92	30	16	4	15	7	164	1

Refer to “Business and Operations Review - 2013 Investment Property Development and Redevelopment Activities” section of this MD&A for further discussion relating to the Company’s value enhancement activities.

The Company’s shopping centre portfolio summarized by region is as follows:

As at	December 31, 2013							December 31, 2012				
<i>(millions of dollars, except other data)</i>	Number of Properties	Gross Leasable Area (000s sq. ft.)	Fair Value	Percent Occupied	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent	Number of Properties	Gross Leasable Area (000s sq. ft.)	Fair Value	Percent Occupied	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent
Central Region												
Greater Toronto Area	45	6,851	\$ 2,452	96.0%	\$ 20.58	33%	49	6,657	\$ 2,319	96.4%	\$ 20.21	32%
Kitchener/Waterloo	10	1,460	410	98.3%	\$ 14.78	5%	10	1,765	407	96.7%	\$ 14.83	6%
London area	7	803	160	93.8%	\$ 14.22	3%	8	1,169	157	93.1%	\$ 13.22	4%
	62	9,114	3,022	96.2%	\$ 19.08	41%	67	9,591	2,883	96.1%	\$ 18.39	42%
Eastern Region												
Québec City	5	1,004	155	93.3%	\$ 11.32	3%	5	946	209	97.0%	\$ 11.45	3%
Greater Montreal area	36	4,841	1,080	95.2%	\$ 14.84	16%	37	4,821	976	95.4%	\$ 14.39	16%
Ottawa/Gatineau	13	1,929	423	96.7%	\$ 16.67	7%	13	1,835	394	97.2%	\$ 15.89	6%
Other	1	122	22	98.2%	\$ 13.67	—%	5	350	51	87.9%	\$ 16.32	1%
	55	7,896	1,680	95.4%	\$ 14.84	26%	60	7,952	1,630	95.7%	\$ 14.46	26%
Western Region												
Calgary	16	2,705	947	96.9%	\$ 20.21	13%	18	2,768	944	97.4%	\$ 19.87	13%
Edmonton	11	2,397	652	94.5%	\$ 18.04	9%	11	2,429	638	93.8%	\$ 17.74	9%
Greater Vancouver area	20	2,350	874	92.9%	\$ 21.42	11%	19	2,229	803	93.1%	\$ 21.40	10%
	47	7,452	2,473	94.9%	\$ 19.89	33%	48	7,426	2,385	94.9%	\$ 19.63	32%
Total	164	24,462	\$ 7,175	95.5%	\$ 17.96	100%	175	24,969	\$ 6,898	95.6%	\$ 17.51	100%

First Capital Realty’s portfolio has 25 retail assets (at 100%) with a value greater than \$85 million or size greater than 300,000 square feet. Together, these 25 assets comprise \$2.9 billion or 40% of \$7.2 billion in aggregate IFRS value. Sixteen of these assets are categorized as stable or stable with incremental redevelopment and expansion, one property is a prior year acquisition, and the balance of eight assets are in the major redevelopment or ground-up category.

At December 31, 2013 the weighted average occupancy on these stable assets is 98.2% and the weighted average run rate yield on invested cost and fair value is 8.36% and 5.76%, respectively. Same property growth on these assets was 2.6% and 2.5% for 2013 and 2012, respectively. At December 31, 2013, the weighted average occupancy on these stable assets with incremental redevelopment or expansion activities is 96.3% and the weighted average run rate yield on cost and fair value is 6.81% and 5.47%, respectively. The same property growth on these assets was 8.37% and 5.28% for 2013 and 2012, respectively. Once stabilized in terms of incremental redevelopment or expansion activities the occupancy and yields are expected to increase.

At December 31, 2013, the remaining large assets which comprise the eight development assets and one acquisition have a weighted average occupancy rate of 95.9% and a weighted average run rate yield on cost and fair value is 6.94% and 5.65%, respectively. These assets are expected to have improved operating metrics following completion of their various value creation activities.

The Company's largest properties (100% owned) as at December 31, 2013 are listed below:

Property Name, City, Province	Gross Leasable Area	IFRS Value (in 000s)	Invested Cost (in 000s)	PreDev/UD ⁽²⁾ Bal (in 000s)	Q4 2013 NOI Run Rate (000s)	Occupancy
Same Property — Stable						
Northgate Centre, Edmonton, AB	487,000	\$ 151,445	\$ 76,530	\$	8,051	93.7%
Meadowvale Town Centre, Mississauga, ON	422,000	144,520	90,704		8,170	99.4%
York Mills Gardens, Toronto, ON	189,000	105,084	78,040		5,660	95.2%
Royal Oak Centre, Calgary, AB	336,000	101,997	57,555		5,599	98.5%
South Park Centre, Edmonton, AB	375,000	100,308	68,223		5,983	99.6%
Morningside Crossing, Toronto, ON	304,000	99,298	85,859		5,623	98.1%
Fairview Mall, St. Catharines, ON	388,000	94,900	74,055		6,339	100.0%
Meadowlark Health and Shopping Centre, Edmonton, AB	299,000	88,033	86,555		5,608	99.2%
Brampton Corners, Brampton, ON	302,000	75,020	44,304		4,320	100.0%
Same Property — with incremental redevelopment and expansion						
Cedarbrae Mall, Toronto, ON	546,000	152,799	109,659	197	8,637	99.2%
Shops at King Liberty, Toronto, ON	293,000	138,997	121,098	4,877	7,390	99.1%
Westmount Shopping Centre, Edmonton, AB	526,000	137,421	124,123	2,004	6,488	88.7%
Rutherford Marketplace, Vaughan, ON	194,000	116,676	107,833	15,724	5,307	100.0%
McKenzie Towne Centre, Calgary, AB	214,000	91,523	49,869	315	5,307	99.4%
Gloucester City Centre, Ottawa, ON	356,000	73,090	56,278	—	4,170	96.3%
Carrefour St-Hubert, Longueuil, QC	317,000	86,925	76,998	4,069	4,844	97.2%
Major redevelopment or ground-up development						
Hazelton Lanes, Toronto, ON ⁽¹⁾	267,000	265,622	265,622	69,148	9,055	80.7%
Victoria Park Centres, Toronto, ON	492,000	130,649	130,529	17	7,368	96.4%
Place Viau, Montreal, QC	211,000	126,933	117,575	58,953	4,381	100.0%
Mount Royal Village, Calgary, AB	208,000	114,070	116,131	38,890	5,363	85.3%
Macleod Trail, Calgary, AB	300,000	102,553	91,534	12,234	6,760	93.8%
Appleby Village, Burlington, ON	251,000	95,197	70,371	49	4,630	93.8%
Semiahmoo Shopping Centre, Surrey, BC	297,000	93,435	94,786	7,690	5,172	92.6%
Place Portobello, Brossard, QC	575,000	91,948	87,718	3,414	6,009	97.3%
Acquisition - Prior Year						
Shops at New West, New Westminster, BC	195,000	104,232	105,002	—	4,312	87.1%
	8,344,000	2,882,675	2,386,951	217,581	150,546	95.9%
Remainder of portfolio	16,118,000	4,339,400	3,663,491	269,195	262,860	95.4%
	24,462,000	\$ 7,222,075	\$ 6,050,442	\$ 486,776	\$ 413,406	95.5%

⁽¹⁾ Fair value includes mortgage investment of \$47 million.

⁽²⁾ Pre-development/underdevelopment costs are included in the IFRS Value and Invested Cost. Included in invested cost of remainder of portfolio is \$166 million of underdevelopment land.

A brief profile of each of these properties follows including the tenants, demographics, locations and potential for additional density. Further information regarding the development activities for the major redevelopment and ground-up development properties is in the section "2013 Investment Property Development and Redevelopment Activities".

Northgate Centre, Edmonton, Alberta

Northgate Centre is a 487,000 square foot two-level enclosed shopping centre located at the intersection of 137th Avenue NW and 97th Street NW. The property is situated on 28.1 acres of land and has 1,838 parking stalls at grade and on one deck. Population within five kilometers is approximately 192,000 with an average household income of approximately \$88,000. Major tenants include Walmart, Safeway (Sobeys), Rexall, RBC Royal Bank, Liquor World, Sport Mart, McDonalds, Alberta Health Services, Alberta Works, Spa Lady, and other restaurants, medical and personal services.

Meadowvale Town Centre Assets, Mississauga, Ontario

Meadowvale Town Centre assets comprises two separate assets, one large shopping centre and one adjacent retail property, totalling 422,000 square feet at the intersection of Winston Churchill Blvd. and Battleford Blvd. The properties are situated on a total of 42.2 acres of land and have a combined 2,189 at grade parking stalls. Meadowvale Town Centre shopping centre has a bus terminal and represents a major hub for commuters in the area. Population within five kilometres is approximately 167,000 with an average household income of approximately \$111,000. Major tenants include Metro, Canadian Tire, Shoppers Drug Mart, TD Canada Trust, CIBC, Bank of Montreal, LCBO, The Beer Store, Tim Hortons, McDonalds, GoodLife Fitness and other restaurants, medical and personal services.

The Meadowvale Town Centre shopping centre was fully redeveloped in 2004 and has future opportunity for significant retail and residential density.

York Mills Gardens Assets, Toronto, Ontario

York Mills Gardens is an assembly of four separate assets comprising one shopping centre, an adjacent retail property, an additional retail and commercial office building and a food campus centre totalling 189,000 square feet located at the intersection of Leslie Street and York Mills Road. The assets are situated on a total of 13.3 acres and collectively have a total of 746 parking stalls at grade. Population within five kilometres is approximately 306,000 with an average household income of approximately \$118,000. Major tenants include Longo's, Shoppers Drug Mart, TD Canada Trust, Bank of Montreal, RBC Royal Bank, LCBO, Second Cup, Starbucks, McDonalds, Kelsey's, Wendy's and other restaurants, medical and personal services.

The adjacent retail and commercial office buildings provide future residential and retail density opportunity.

Royal Oak Centre, Calgary, Alberta

Royal Oak Centre is a shopping centre totalling 336,000 square feet situated on 28.0 acres of land and has 1,512 at grade parking stalls. The property is located at the intersection of 85th Street NW and Country Hills Blvd. NW. Population within five kilometres is approximately 94,000 with an average household income of approximately \$158,000. Major tenants include Sobeys, Walmart, London Drugs, RBC Royal Bank, Bank of Montreal, Scotiabank, Dollarama, Second Cup and other restaurants, medical and personal services.

South Park Centre, Edmonton, Alberta

South Park Centre is a shopping centre totalling 375,000 square feet situated on 27.7 acres of land and has 1,633 at grade parking stalls. The property is located at the intersection of Calgary Trail NW, 39A Avenue NW and Gateway Blvd. NW. Population within five kilometres is approximately 130,000 with an average household income of approximately \$108,000. Major tenants include Walmart, Canadian Tire, Sport Chek, JYSK, Dollar Giant, TD Canada Trust, Starbucks, GoodLife Fitness and other restaurants, medical and personal services.

Morningside Crossing Assets, Toronto, Ontario

The Morningside Crossing assets are an assembly of six properties that now comprise four separate assets, including two adjacent shopping centres and two additional retail properties totalling 304,000 square feet located at the intersection of Lawrence Ave., Morningside Ave. and Kingston Rd. The Morningside Crossing assets are situated on a total of 23.2 acres of land and collectively have 1,303 parking stalls at grade. Population within five kilometres is approximately 196,000 with an average household income of approximately \$76,000. The Morningside Crossing shopping centre asset was originally redeveloped and opened in 2008 on three of the assembled properties. This centre also houses the Company's property management operations office in Toronto. The shopping centres and two additional retail properties which comprise the remainder of the assets are expected to be redeveloped in the future, providing opportunity to improve the tenant mix and retail shopping environment. Major tenants include Food Basics, No Frills, Shoppers Drug Mart, Pharma Plus, Bank of

Montreal, CIBC, TD Canada Trust, LCBO, Dollarama, Starbucks, Tim Hortons, McDonalds, Mark's Work Wearhouse, GoodLife Fitness, and other restaurants, medical and personal services.

Fairview Mall Assets, St. Catharines, Ontario

The Fairview Mall assets are an assembly of five assets comprising an enclosed shopping centre and adjacent free-standing retail buildings totalling 388,000 square feet, located in the heart of the Golden Horseshoe area, between the Greater Toronto Area and the U.S. border, along the Queen Elizabeth Way. The properties are situated on a total of 30.2 acres of land and together have 1,880 parking stalls at grade. Population within five kilometres is approximately 114,000 with an average household income of approximately \$67,000. Major tenants include Food Basics, Walmart, Scotiabank, CIBC, Staples, LCBO, Winners, Chapters (including Starbucks), Mark's Work Wearhouse, Sport Chek, Future Shop, Dollarama, McDonalds, Tim Hortons and other restaurants, medical and personal services.

Meadowlark Health and Shopping Centre, Edmonton, Alberta

Meadowlark Health and Shopping Centre totals 299,000 square feet at the intersection of 156th Street and 87th Avenue. The property has 1,230 at grade parking stalls and sits on 23.2 acres of land. Population within five kilometers is approximately 138,000 with an average household income of approximately \$113,000. Meadowlark was redeveloped in 2001 to have a shopping centre component in addition to a medical services component. Major tenants include Walmart, Safeway (Sobeys), Shoppers Drug Mart, RBC Royal Bank, CIBC, Liquor Depot, McDonalds, Second Cup, Alberta Service Centre and other restaurants, medical and personal services.

Brampton Corners Shopping Centre, Brampton, Ontario

Brampton Corners is a 302,000 square foot shopping centre situated on 27.8 acres of land with 1,633 parking stalls at grade at the intersection of Main Street North and Bovaird Drive West. Population within five kilometers is approximately 269,000 with an average household income of approximately \$95,000. Major tenants include Walmart, Fortino's, HSBC, Scotiabank, National Bank Canada, Indigo, Kelsey's, Second Cup and other restaurants, medical and personal services.

Cedarbrae Mall Assets, Toronto, Ontario

Cedarbrae Mall assets is an assembly of three separate assets, consisting of one large enclosed shopping centre and two adjacent properties totalling 546,000 square feet located at the intersection of Lawrence Avenue and Markham Road. The Cedarbrae Mall assets are situated on a total of 37.9 acres of land and collectively have 2,151 parking stalls at grade and on one deck. Population within five kilometers is approximately 265,000 with an average household income of approximately \$66,000. Major tenants include Walmart, No Frills, Canadian Tire, Staples, Shoppers Drug Mart, Scotiabank, CIBC, RBC Royal Bank, LCBO, The Beer Store, Toys "R" Us, Dollarama, Mark's Work Wearhouse, Tim Hortons, McDonalds, GoodLife Fitness and other restaurants, medical and personal services.

The Cedarbrae Mall Assets were redeveloped over a decade and the interior and exterior of the enclosed shopping centre was fully renovated in 2013 to maintain a functional and pleasant shopping environment. There is future opportunity for retail density on the site.

Shops at King Liberty Assets, Toronto, Ontario

The Shops at King Liberty assets are an assembly of eight properties at Liberty Street and Hanna Avenue, comprising separate assets including an open-air shopping centre and adjacent retail and ancillary office space (including the Company's corporate offices), situated on 10.3 acres of land, as well as three at grade retail properties under condominium towers on King Street. The Shops at King Liberty assets total 293,000 square feet and have 278 at grade and 354 underground parking spaces. Population within five kilometres is approximately 415,000 with an average household income of approximately \$83,000. Shops at King Liberty is located just west of Toronto's downtown, in King Liberty Village, which is a live, work, play community (one of the fastest growing in Toronto in the past five years), and is located between two public transit routes, the TTC street cars on King Street and the Lakeshore West GO Train line.

The Company made its initial investment in Shops at King Liberty's 72,000 square feet grocery-anchored retail shopping centre in 2004, and has since developed or redeveloped three separate additional retail buildings totalling approximately 112,000 square feet. The Shops at King Liberty assets include two heritage buildings restored to state-of-the-art commercial properties by the Company and further include amenities, benches, patios, public spaces and art. Major

tenants include Metro, TD Canada Trust, CIBC, RBC Royal Bank, LCBO, The Beer Store, West Elm, EQ3, Starbucks, Aroma, GoodLife Fitness and other restaurants, medical and personal services.

As part of the Shops at King Liberty assets, the Company also owns a 50% interest in 3.32 acres of land on two development sites on King Street, KingsClub and 1071 King Street. In late 2013, the Company received final rezoning approval for the development of its KingsClub mixed use project, which will be developed with the Company's partner, Urbancorp, one of the leading residential developers in the King/Queen West area of Toronto. KingsClub will comprise almost 160,000 square feet of retail/commercial uses, 345,000 square feet of residential (for approximately 500 residential units) in three high-rise buildings above the retail, as well as a total of 775 underground parking stalls (including 345 stalls for retail/commercial use). Construction is underway and the project is currently in the excavation stage. The Company has the right to acquire its partner's interest in the retail/commercial space and related parking at completion. The 1071 King Street development site has 100,000 square feet of density entitlements.

KingsClub retail, together with the remainder of the Company's existing Shops at King Liberty mixed use retail and commercial assets will total approximately 450,000 square feet of retail/commercial space and 960 underground and at grade parking stalls.

There is also substantial additional future density potential on the existing retail site.

The Company substantially completed the Fuzion condominium tower together with its partner Urbancorp, consisting of 246 residential units and 9,000 square feet of retail space late in 2013.

Refer to the "Residential Development Inventory" section of this MD&A for further discussion on the Fuzion and KingsClub projects.

Westmount Shopping Centre Assets, Edmonton, Alberta

The Westmount Shopping Centre assets comprise one shopping centre and one small retail property totalling 526,000 square feet situated on 34.2 acres of land, with a combined total of 1,530 at grade parking stalls along Groat Road. The estimated population within five kilometers is 152,000 with an average household income of \$78,000. Major tenants include Walmart, Safeway (Sobeys), Home Depot, Shoppers Drug Mart, Rexall, Bank of Montreal, Scotiabank, TD Canada Trust, Liquor Depot, Dollarama, Mark's Work Wearhouse, McDonalds, Tim Hortons, Gold's Gym and other restaurants, medical and personal services. The Company's development plans for the assets include a new 4,200 square foot retail pad, a 102-unit, 12-storey residential building, as well as the demolition of certain buildings and construction of a new 51,000 square foot, five-storey building consisting of main floor retail and 52 residential units above. The Company has obtained the development permit and has set a tentative start date in 2015. Residential development components of the assets may be developed in the future by the Company on its own, together with a residential partner or sold as land or air rights to a residential developer. There is substantial additional density potential on the site. In 2013, the Company sold a land parcel totalling 1.4 acres at the back of the site that will be developed as a residential tower.

Rutherford Marketplace, Vaughan, Ontario

Rutherford Marketplace is a recently developed 194,000 square foot shopping centre located at the major intersection of Bathurst Street and Rutherford Road. The shopping centre is situated on 12.3 acres of land and has 610 parking stalls at grade and 445 parking stalls below grade. Population within five kilometres is approximately 183,000 with an average household income of approximately \$118,000.

Major tenants include Longo's, Shoppers Drug Mart, RBC Royal Bank, CIBC, LCBO, Second Cup, Aroma, L.A. Fitness and other restaurants, medical and personal services.

The Company received municipal approvals in late 2013 for the development of the third and final phase of Rutherford Marketplace to be built on 3.8 acres of land. The development entails the construction of an additional 50,000 square feet of retail/commercial uses, a 240,000 square foot residential condominium building and 560 underground parking stalls (including 155 stalls for retail/commercial use) on the site. This additional density and parking together with the existing Rutherford Marketplace shopping centre initially developed by the Company in 2009 to 2010, will comprise a total of 243,000 square feet retail/commercial space with 610 at grade and 1,000 underground retail/commercial parking stalls.

McKenzie Towne Centre Assets, Calgary, Alberta

The McKenzie Town Centre assets total 214,000 square feet and 838 at grade parking stalls on an aggregate of 18.1 acres of land at the intersection of McKenzie Towne Ave. and High Street. Population within five kilometers is approximately 84,000 with an average household income of approximately \$148,000. The property is next to a future LRT station parking lot. The McKenzie Town Centre assets were acquired starting in 2003 and have been developed in phases to meet the growing needs of the community. Major tenants include Sobeys, Rexall, TD Canada Trust, ATB Financial, Bank of Montreal, Liquor Depot, Second Cup, GoodLife Fitness and other restaurants, medical and personal services.

Gloucester City Centre, Ottawa, Ontario

Gloucester City Centre is a 356,000 square foot shopping centre situated on 28.5 acres of land with 1,386 at grade parking stalls located at the intersection of Ogilvie Road and Blair Road. The property is on a bus transit route and will be connected to a new LRT station. Population within five kilometers is approximately 112,000 with an average household income of \$79,000. Major tenants include Walmart, Loblaws, Rexall, CIBC, Scotiabank, LCBO, Bulk Barn, Tim Hortons and other restaurants, medical and personal services.

The shopping centre was acquired in 2003. In 2012, redevelopment and expansion activities commenced with a partial demalling and relocation of certain tenants to facilitate an expanded Rexall. The redevelopment also included the construction of a 12,000 square foot standalone pad for LCBO. The redevelopment and expansion increased the overall shopping centre gross leaseable area by approximately 16,000 square feet.

Carrefour St-Hubert Assets, Longueuil, Quebec

The Carrefour St-Hubert assets are an assembly of five properties operating as three separate shopping centre assets totalling 317,000 square feet located on three corners at the intersection of Boulevard Cousineau and Boulevard Gaetan Boucher. The shopping centres have a total of 1,838 parking stalls at grade and sit on 35.4 acres of land in aggregate. Population within five kilometres is approximately 115,000 with an average household income of approximately \$75,000. Major tenants include Super C, IGA, Pharmaprix (Shoppers Drug Mart), Jean Coutu, CIBC, National Bank Canada, CIBC, RBC Royal Bank, SAQ, Dollarama, McDonalds, Tim Hortons, Second Cup, Rotisserie St-Hubert, Energie Cardio and other restaurants, medical and personal services.

The Carrefour St-Hubert assets have been redeveloped during the past 12 years in phases to bring tenants and buildings up to current standards. There is additional opportunity for retail density and a land parcel for residential use which the Company plans to sever and sell.

Yorkville Assets, Including Hazelton Lanes Shopping Centre, Toronto, Ontario

Yorkville Assets, including Hazelton Lanes Shopping Centre, is an assembly of four separate assets, including one enclosed shopping centre on Avenue Road and three additional retail properties on Yorkville Ave., totalling 267,000 square feet, situated on an aggregate of 4.2 acres of land with a combined 489 stalls of underground parking. In addition to the foregoing, the Yorkville assets also include a mortgage investment in a building that comprises 77 hotel suites and related retail space and 66 parking stalls underground, on Yorkville Ave., adjacent to Hazelton Lanes Shopping Centre. The hotel square footage and parking is not included in the Yorkville assets total. Population within five kilometers is approximately 617,000 with an average household income of approximately \$98,000. Major tenants include a Whole Foods grocery store, Rexall, Anthropologie, Diesel, Teatro Verde, an Equinox gym and other restaurants, medical and personal services.

The upcoming redevelopment project of Hazelton Lanes Shopping Centre entails a complete renovation of the interior mall, including the creation of some additional retail space, and an attractive new facade that will open up the shopping centre's street facing retailers to Avenue Road, a major arterial road in the City of Toronto, and create a new entrance from Yorkville Ave. to the enclosed shopping centre. First Capital Realty expects to commence construction on the project in the first half of 2014 and will maintain the shopping centre in operation throughout the renovation.

Victoria Park Centres, Toronto, Ontario

The Victoria Park Centres comprise two separate shopping centres, Parkway Mall and Victoria Terrace in Toronto, Ontario, totaling 492,000 square feet. The shopping centres are situated on a total of 33.9 acres of land and collectively have 1,835 at grade and 155 underground parking stalls. Population within five kilometres is approximately 321,000 with an average household income of approximately \$75,000. Major tenants include Metro, No Frills, Shoppers Drug Mart, Toys “R” Us, Staples, TD Canada Trust, CIBC, Scotiabank, LCBO, Dollarama, McDonalds, Tim Hortons, GoodLife Fitness and other restaurants, medical and personal services. LCBO recently opened a new prototype store on a pad at the front of Parkway Mall, which constitutes the first phase of ongoing long-term repositioning of the centres. The Company continues to evaluate longer term redevelopment strategies for the Victoria Park Centres and to collaborate with tenants to determine the ultimate strategy for maximizing development opportunities on the assets.

Place Viau Assets, Montreal, Quebec

The Place Viau assets are an assembly of five properties totalling 21.2 acres of land, currently comprising three assets, including two shopping centres totalling 211,000 square feet and a ground-up shopping centre development on three of three of the assembled properties. The largest Place Viau asset is located on the southwest corner of the busy intersection of Highway 40 and Boulevard Viau, and along Boulevard Viau and Jean-Talon Street, in the Montreal borough of Saint-Léonard. Population within five kilometres is approximately 536,000 with an average household income of approximately \$53,000. Major tenants include Walmart, IGA Extra, Pharmaprix (Shoppers Drug Mart), TD Canada Trust, Bureau en Gros (Staples), SAQ, Pizza Hut, A&W, Rotisserie St-Hubert, and other restaurants, medical and personal services.

First Capital Realty is currently completing Phase I of the ground-up development of the new Place Viau. This new multi-level shopping centre comprises a full-scale, open-air shopping centre on top of a building that includes a 100,000 square foot Walmart store and other retail/commercial space, all connected with convenient pedestrian and vehicular access, vertical transportation and surface and covered parking. Place Viau Shopping Centre makes innovative use of the surrounding topography to provide street-level entrances to all components of the shopping centre. Once complete, Place Viau Shopping Centre's first phase will encompass a total of 227,000 square feet of retail space, 635 underground parking stalls and 300 at grade parking stalls. The shopping centre's Walmart store opened on January 23, 2014 and the remainder of the centre will open in late 2014 and early 2015.

According to the Company's current plans, upon completion of future phases of development, Place Viau Shopping Centre plans comprise in total approximately 360,000 square feet of retail/commercial space, 1,377 underground and surface parking stalls and may incorporate residential density. Together with the Company's neighbouring Place Michelet and Place Provencher shopping centres, and assuming final completion of all phases of the Place Viau Shopping Centre ground-up development, the Company will own a total of 467,000 square feet of retail/commercial space in the Place Viau assets, with a total of 1,907 at grade and below grade parking stalls.

Mount Royal Village Assets, Calgary, Alberta

The Mount Royal Village assets are an assembly of four assets totalling 208,000 square feet situated on 3.5 acres of land with 361 underground and on an interim basis, 123 at grade parking stalls, located on 17th Avenue SW, just south of Calgary's downtown core, and is in the heart of a densely populated, fast growing, high income neighbourhood. The original Mount Royal shopping centre building was constructed in 1978 and contains three floors of retail space and three floors of office space above. A connected condominium building immediately to the north was constructed in 2001 and houses at its base commercial space owned by the Company, which includes an 18,000 square foot London Drugs as the anchor tenant on the main floor, 4,200 square feet of second floor office space, and an underground parkade, consisting of 215 underground parking stalls and 8 at grade parking stalls.

As part of its redevelopment of Mount Royal Village, the Company is nearing completion on the major renovation of the 136,000 square foot Mount Royal Village shopping centre mixed use retail and office complex, which includes as major tenants London Drugs and GoodLife Fitness and is also expected to include a high-end furniture retailer and restaurants. In addition, the Company is currently in the entitlements process for the development of an adjacent three-level, 110,000 square foot retail/commercial building, to be anchored by an Urban Fare grocery store. The Company intends to sell a land parcel forming part of the Mount Royal Village assets to a residential developer for construction of a 250,000 square

foot high-rise residential condominium building. On completion of the redevelopment project, the Mount Royal Village assets will total 336,000 square feet of retail/commercial space and 630 parking stalls.

Population within five kilometers is 183,000 with an average household income of \$128,000. Major tenants currently include London Drugs, Shoppers Drug Mart, HSBC Bank of Canada, Oasis Wellness Centre & Spa, and other restaurants, medical and personal services.

Macleod Trail Assets, Calgary, Alberta

This is an assembly of four assets along the Macleod Trail main corridor in Calgary, consisting of 9630 Macleod Trail, Macleod Plaza, the Travelodge Hotel and Newport Village for a total of 390,000 square feet (including a 90,000 square foot hotel) on 24 acres contiguous along Macleod Trail. Major tenants include Rona, Bank of Montreal, Dollarama, Starbucks and other restaurants, medical and personal services. The estimated population within five kilometers is 132,000 with an average household income of \$145,000. The properties are being held and maintained in their current state for future redevelopment. The Company's proposed plan is a phased approach over a decade, demolishing parts of the existing structures, and constructing a new three-storey mixed-use retail and office property, for a total estimated 600,000 square feet upon completion. In addition, there is potential for a residential component (250,000 square feet), an office component (60,000 square feet of GLA), a 60,000 square foot hotel, and an underground parkade consisting of 2,540 parking stalls to service the Macleod Trail assets. The project is currently in the preliminary phase of planning.

Appleby Village Assets, Burlington, Ontario

The Appleby Village assets are an assembly of three separate assets consisting of one shopping centre and two retail properties on three corners at the intersection of Appleby Line and New Street in a community that borders on Lake Ontario. The properties are situated on a total of 20.1 acres of land and comprise a total of 251,000 square feet and 1,200 parking stalls at grade. Population within five kilometers is approximately 89,000 with an average household income of \$107,000. Appleby Village shopping centre was acquired in 2004 as an old tired mall and was redeveloped, demalled and expanded with new retail space. Smaller retail properties on two of the three adjacent corners were acquired subsequently and were refurbished and fully completed in 2013. Major tenants include a Fortino's (Loblaws), Rexall, Bank of Montreal, TD Canada Trust, LCBO, The Beer Store, Dollarama, Home Hardware, Starbucks, Women's Fitness Clubs of Canada and other restaurants, medical and personal services.

The Appleby Village assets also have retail and residential density potential currently in the planning stage.

Semiahmoo Shopping Centre, Surrey, British Columbia

Semiahmoo Shopping Centre is a 297,000 square foot retail property situated on 19.6 acres of land with 320 deck and 921 at grade parking stalls located on the corner of 16th Avenue and 152th Street. The centre is in a neighbourhood with good demographics that are expected to grow substantially in the coming years. The estimated population within five kilometers is 79,000 with an average household income of \$108,000. Major tenants include PriceSmart Foods (Overwaita), Shoppers Drug Mart, CIBC, Zellers, BC Liquor Store, Dollar Tree and other restaurants, medical and personal services. The Company's proposed plan is a phased redevelopment involving the northern portion of the site. Based on preliminary plans, this is expected to entail demolishing the existing structures and creating 352,000 square feet of new retail, 40,000 square feet of office, 675,500 square feet of residential (resulting in approximately 550 units) bringing new retailers to the property with investment of up to an additional \$85 million. The project is currently in the preliminary phase of planning.

Place Portobello Assets, Brossard, Quebec

The Place Portobello assets comprise one shopping centre and a smaller retail property totalling 575,000 square feet situated on 46.4 acres of land with 2,477 at grade parking stalls, in aggregate, located on Taschereau Boulevard off Highway 10 in the South Shore area of Montreal. Population within five kilometres is approximately 172,000 with an average household income of approximately \$82,000. Major tenants include Target, Reno Deport, Maxi (Loblaws), Jean Coutu, RBC Royal Bank, CIBC, Dollarama and other restaurants, medical and personal services. The Company's proposed development of the Place Portobello shopping centre may include additional retail density and reconfiguration of the site. The Place Panama property down the street borders a bus transportation hub and is expected to also be redeveloped in the future, where there is significant future density potential on the site.

Shops at New West, New Westminster, British Columbia

Shops at New West is a newly developed, unique shopping centre totalling 195,000 square feet on three levels on 2.5 acres that is integrated with a bus terminal and a Sky Train rapid transit station at Columbia Street and 8th Street. The property has a large deck parking facility to accommodate shoppers. The Company has a binding agreement to acquire the parking facility. The property is in the high growth community, adjacent to a community auditorium and other community amenities and newly developed condominium towers, on the Fraser River, southeast of Vancouver. Population within five kilometers is approximately 197,000 with an average household income of approximately \$75,000. Major tenants include Safeway (Sobeys), Shoppers Drug Mart, RBC Royal Bank, CIBC, Dollar Tree, Landmark Cinemas, Starbucks, Tim Hortons, and other restaurants, medical and personal services.

Valuation of Investment Properties Under IFRS

During the year ended December 31, 2013, the weighted average stabilized capitalization rates declined from 6.00% to 5.86%, including the impact of dispositions, acquisitions, and development activities. The increase in value of investment properties, net was \$56 million from December 31, 2012 to December 31, 2013.

The Company has adopted IFRS 13 prospectively from January 1, 2013. IFRS 13 provides a single standard for fair value, replacing the fair value concepts that were previously included in many other standards, and also clarifies various requirements with regard to the appropriate measurement and disclosure of fair value and its underlying inputs. The standard defines fair value, provides guidance on its determination and outlines required disclosures about fair value measurements, but does not change the requirements about the items that should be measured and disclosed at fair value.

Under IFRS 13, an entity's current use of investment property is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset. The Company is in the pre-development stage of certain projects where the current use of these properties may change from retail only to mixed-use. As the Company progresses the rezoning and entitlements process and advances these development projects, the fair value for IFRS purposes may be determined based on "highest and best use", which differs from the properties' current use. As at January 1, 2013, Management had determined that no material change in the value of investment properties was required as a result of the application of this standard.

The Company has three approaches to determine the fair value of an investment property at the end of each reporting period:

1. External appraisals – by an independent national appraisal firm, according to professional appraisal standards and IFRS. On an annual basis, the Company has an annual minimum threshold of approximately 15% of the portfolio requiring external appraisal.
2. Internal appraisals – by certified staff appraisers employed by the Company, according to professional appraisal standards and IFRS.
3. Value updates – performed by certified staff appraisers and primarily consisting of reviewing the key assumptions from previous appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

The selection of the approach for each property is made based upon the following criteria:

- Property type – this includes an evaluation of a property's complexity, stage of development, time since acquisition, and other specific opportunities or risks associated with the property. Stable properties and recently acquired properties will generally receive a value update, while properties under development will typically be valued using internal or external appraisals until completion.
- Market risks – specific risks in a region or a trade area may warrant a full external or internal appraisal for certain properties.
- Changes in overall economic conditions – significant changes in overall economic conditions may increase the number of external or internal appraisals performed.
- Business needs – financings or acquisitions and dispositions may require an external appraisal.

Shopping Centres Valuation Method

Shopping centres are appraised primarily using stabilized cash flows from existing tenants with the property in its existing state, since purchasers typically focus on expected income. External and internal appraisals are conducted using and placing reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition). Value updates are calculated using the direct capitalization method.

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. Fair value of properties under development includes a deduction for costs to complete of \$95.5 million.

During the year ended December 31, 2013, approximately 16% (year ended December 31, 2012 – approximately 35%) of the total fair value of shopping centres was determined through external appraisals and approximately 10% (year ended December 31, 2012 – approximately 4%) was determined through internal appraisals.

The values of the Company's proportionate interest in its shopping centres and associated capitalization rates and stabilized net operating income ("SNOI") by region are as follows as at December 31, 2013 and December 31, 2012:

December 31, 2013											
<i>(millions of dollars, except other data)</i>	Number of Properties	Capitalization Rate				Fair Value	Revaluation Gains	SNOI ⁽¹⁾	Weighted Average Yield		
		Weighted Average	Median	Range	Actual NOI to Fair Value Yields ⁽²⁾				Run Rate to Fair Value Yield ⁽³⁾	Run rate to Cost Yield ⁽⁴⁾	
Central Region	62	5.75%	5.96%	5.25%-8.22%	\$ 3,022	\$ 32	\$ 167	5.61%	5.61%	6.66%	
Eastern Region	55	6.31%	6.25%	5.64%-9.00%	1,680	9	104	6.13%	6.52%	7.48%	
Western Region	47	5.70%	5.75%	5.00%-7.25%	2,473	13	143	5.36%	5.62%	6.94%	
	164	5.86%	6.00%	5.00%-9.00%	\$ 7,175	\$ 54	\$ 414	5.64%	5.81%	6.95%	

December 31, 2012											
<i>(millions of dollars, except other data)</i>	Number of Properties	Capitalization Rate				Fair Value	Revaluation Gains	SNOI ⁽¹⁾	Weighted Average Yield		
		Weighted Average	Median	Range	Actual NOI to Fair Value Yields ⁽²⁾				Run Rate to Fair Value Yield ⁽³⁾	Run rate to Cost Yield ⁽⁴⁾	
Central Region	67	5.92%	6.00%	5.50%-8.50%	\$ 2,883	\$ 140	\$ 167	5.60%	6.47%	7.29%	
Eastern Region	60	6.47%	6.50%	5.75%-10.00%	1,630	33	101	6.16%	6.62%	8.01%	
Western Region	48	5.80%	6.00%	5.00%-6.50%	2,385	115	136	5.47%	5.58%	6.82%	
	175	6.00%	6.00%	5.00%-10.00%	\$ 6,898	\$ 288	\$ 404	5.68%	6.18%	7.29%	

⁽¹⁾ SNOI is not a measure defined by IFRS. SNOI reflects long-term, stable property operations, assuming a certain level of vacancy, capital and operating expenditures required to maintain a stable occupancy rate. The average vacancy rates used in determining SNOI for non-anchor tenants generally range from 2% to 5%.

⁽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 ground-up development projects discussed in the "Business and Operations Review - 2013 Investment Property Development and Redevelopment Activities" section of this 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, 2013 is set out in the table below:

Capitalization rate	Resulting increase (decrease) in value of shopping centres
(Decrease) increase	(millions of dollars)
(0.75)%	\$ 975
(0.50)%	\$ 620
(0.25)%	\$ 296
0.25%	\$ (272)
0.50%	\$ (523)
0.75%	\$ (754)

Additionally, a 1% increase or decrease in stabilized NOI would result in an increase or decrease, respectively, in fair values of shopping centres by \$71 million. A 1% increase in stabilized NOI coupled with a 0.25% decrease in capitalization rate would result in an increase in the fair value of shopping centres of \$389 million, and a 1% decrease in stabilized NOI coupled with a 0.25% increase in capitalization rate would result in a decrease in the fair value of shopping centres of \$357 million.

Development Land Valuation Method

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 on either a per acre basis or on a basis of per square foot buildable. Such values are applied to the Company's properties after adjusting for factors specific to the site, including its location, zoning, servicing and configuration. During the year ended December 31, 2013, approximately 17% (year ended December 31, 2012 – approximately 17%) of the total fair value of development land was determined through external appraisals.

Investment Properties – Shopping Centres

A continuity of the Company's proportionate interest in investments in its shopping centre acquisitions, dispositions, development and portfolio improvement activities is summarized below:

Year ended December 31	2013		2012	
(millions of dollars)	Fair Value	Cost	Fair Value	Cost
Balance at beginning of year	\$ 6,849	\$ 5,732	\$ 5,766	\$ 4,890
Acquisitions				
Shopping centres	60	60	426	426
Additional space adjacent to existing properties	118	118	255	255
Additional interest in existing property	—	—	42	42
Additional land parcels adjacent to existing properties	10	10	32	32
Development activities and portfolio improvements	255	255	310	310
Reclassifications from development land	2	2	13	9
Fair value increase	54	—	288	—
Dispositions	(232)	(214)	(297)	(232)
Other changes	10	—	14	—
Balance at end of year	\$ 7,126	\$ 5,963	\$ 6,849	\$ 5,732
Investment in joint venture – shopping centres	49	40	49	40
Proportionate interest end of year	\$ 7,175	\$ 6,003	\$ 6,898	\$ 5,772

Investment Properties – Development Land

A continuity of the Company's proportionate interest in investments in its development land acquisitions, dispositions and development activities is summarized below:

Year ended December 31 (millions of dollars)	2013				2012			
	Fair Value		Cost	Fair Value		Cost		
Balance at beginning of year	\$	127	\$	123	\$	99	\$	89
Acquisitions		36		36		39		39
Development activities		12		12		10		10
Dispositions		(10)		(9)		(6)		(7)
Reclassifications to shopping centres		(2)		(2)		(13)		(9)
Fair value increase		2		—		(1)		—
Other		1		1		(1)		1
Balance at end of year	\$	166	\$	161	\$	127	\$	123

2013 Acquisitions

The 2013 acquisitions are in line with the Company's business strategy based on their locations, tenancies and redevelopment, repositioning or expansion opportunities.

Total acquisitions of investment properties, which include shopping centres, additional space and adjacent lands and development lands, amounted to \$224.7 million, adding 0.3 million square feet of gross leasable area and 12.6 acres of land for future development.

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 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.

Shopping Centres

In 2013, the Company invested \$60.3 million in the acquisition of one shopping centre and one medical office and retail property, comprising 108,000 square feet. These acquisitions are in new trade areas in the Company's target urban markets and demonstrate the Company's continuing focus on acquiring well-located, high quality urban retail-centered properties. The acquisitions 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)
Western Region								
Victoria Professional and Medical Dental Building	Victoria	BC	Q1	✓	—	—	45,000	\$ 13.9
False Creek Village	Vancouver	BC	Q4	✓	✓	✓	63,000	46.4
Total							108,000	\$ 60.3

Shopping Centres – Additional Space and Adjacent Land Parcels

In 2013, the Company acquired 16 properties adjacent to existing shopping centres and one property through Main and Main Developments adding 178,000 square feet of gross leasable area and 3.6 acres adjacent to existing properties in established retail nodes. Total expenditures on these adjacent parcels amounted to \$127.9 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						
Leaside Village	Toronto	ON	Q1	5,000	—	\$ 2.7
Main and Main Developments ⁽¹⁾	Toronto	ON	Q1	—	1.3	12.3
Hazelton Lanes (Yorkville)	Toronto	ON	Q2	29,000	—	55.0
Meadowvale Town Centre (Aquitaine Plaza)	Toronto	ON	Q2	33,000	—	10.8
Leaside Village	Toronto	ON	Q2	—	0.4	1.1
Fairway Plaza (569 Fairway)	Kitchener	ON	Q3	8,000	—	1.7
Hazelton Lanes (106–108 Yorkville)	Toronto	ON	Q4	7,000	—	7.3
Leaside Village	Toronto	ON	Q4	—	1.44	6.7
Other	Toronto	ON	Q1/Q2/Q4	8,000	0.1	6.5
Eastern Region						
Centre Commercial Wilderton (Atrium du Sanctuaire)	Montreal	QC	Q1	37,000	—	10.2
Place Fleury (1780 Fleury – Dollarama)	Montreal	QC	Q2	7,000	—	3.2
Place Fleury (Renaud-Bray)	Montreal	QC	Q3	35,000	—	6.3
Loblaws Plaza (1454 Merivale)	Ottawa	ON	Q4	3,000	—	1.1
Galleries Normandie (2655, rue de Salaberry)	Montreal	QC	Q4	6,000	—	1.3
Western Region						
Tuscany Village (3959 Shelbourne Street)	Victoria	BC	Q3	—	0.4	1.7
Total				178,000	3.6	\$ 127.9

⁽¹⁾ The Company consolidates the activities of Main and Main Developments in its consolidated financial statements and information presented is at 100%.

Development Lands

In 2013, the Company invested \$36.5 million in the acquisition of five development land parcels, comprising nine acres for future development of retail and mixed-use space. See the “Business and Operations Review - 2013 Investment Property Development and Redevelopment Activities” section of this MD&A for further discussion.

Property Name	Percentage Ownership	City	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions) (at Company's interest)
Main and Main Developments ⁽¹⁾	67%	Ottawa	ON	Q1	0.3	\$ 2.8
Suncor Land (Kanata Terry Fox)	50%	Ottawa	ON	Q1	0.6	0.8
Molson Site (Edmonton Brewery District)	50%	Edmonton	AB	Q1	4.0	8.2
Royal Orchard	100%	Toronto	ON	Q3	3.9	23.2
5210 Rue Jean Talon Ouest	100%	Montreal	QC	Q4	0.2	1.5
Total					9.0	\$ 36.5

⁽¹⁾ The Company consolidates the activities of Main and Main Developments in its consolidated financial statements and information presented is at 100%.

2013 Dispositions

In 2013, the Company sold 10 shopping centres representing 1,105,000 square feet of GLA, six land parcels and an interest in one land parcel representing 13.9 acres. Gross proceeds of these dispositions were \$242.2 million.

Included in the 2013 dispositions was the sale of a portfolio of properties to Retrocom Real Estate Investment Trust (TSX:RMM.UN) (“Retrocom”) located in Ontario, Quebec and Alberta totalling approximately 1 million square feet of GLA, for gross proceeds of approximately \$193 million, which were satisfied through the assumption by the purchaser of approximately \$40 million in mortgages payable, with the balance of the sale proceeds paid in cash. Additionally, First Capital Realty acquired \$15 million in equity instruments of the buyer.

Property Name	City	Province	Quarter Sold	Gross Leasable Area (square feet)	Acreage	Gross Sales Price (in millions)
Central Region						
54 – 70 Plains Road West	Burlington	ON	Q1	—	1.4	
Tillsonburg Town Centre	Tillsonburg	ON	Q2	368,000	—	
Bowmanville Mall	Bowmanville	ON	Q2	152,000	—	
Main and Main Developments	Toronto	ON	Q2	—	0.4	
Main and Main Developments (40% interest in one assembly)	Toronto	ON	Q2	—	—	
Pergola Commons (adjacent land)	Guelph	ON	Q4	—	7.5	
Eastern Region						
Cole Harbour Shopping Centre	Dartmouth	NS	Q1	76,000	—	
Galleries Don Quichotte	L’ile-Perrot	QC	Q2	205,000	—	
IGA Tremblant	Mont-Tremblant	QC	Q2	38,000	—	
Carrefour du Versant (adjacent land)	Gatineau	QC	Q2	—	2.3	
Carrefour des Forges	Drummondville	QC	Q2	75,000	—	
Ropewalk Lane	St. John’s	NF	Q4	40,000	—	
Western Region						
Eastview Shopping Centre	Red Deer	AB	Q2	35,000	—	
Cochrane City Centre	Cochrane	AB	Q2	59,000	—	
South Fraser Gate	Abbotsford	BC	Q2	32,000	0.9	
Westmount Village (adjacent land)	Edmonton	AB	Q2	25,000	1.4	
Total				1,105,000	13.9	\$ 242.2

In aggregate, the gross sales price on the 2013 sales have exceeded invested cost by approximately \$22.1 million. Total mortgages assumed by purchasers aggregated \$39.5 million, with a weighted average cash interest rate of 5.47%. The 2013 dispositions are in line with the Company’s ongoing strategy of increasing the portfolio’s focus on core urban markets.

Impact of Acquisitions and Dispositions on Continuing Operations

The NOI effect of properties acquired and sold, based on the run rate at the time of acquisition or sale, for the years ended December 31, 2013 and 2012 is set out in the table below:

<i>(thousands of dollars)</i>	Run rate NOI of properties acquired		Run rate NOI of properties sold	
	2013	2012	2013	2012
Central Region	\$ 1,246	\$ 13,153	\$ 5,931	\$ 9,386
Eastern Region	4,177	9,897	5,597	1,144
Western Region	2,624	15,006	3,210	7,437
Total	\$ 8,047	\$ 38,056	\$ 14,738	\$ 17,967

Investment Properties Classified as Held For Sale

Investment property is classified as held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. Investment property held for sale 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 sheets.

Included in investment properties as at December 31, 2013 are seven shopping centres and two development land parcels with an approximate value of \$155.5 million that meet the financial reporting criteria to be classified as held for sale. These properties are considered to be non-core assets. Disposition of these investment properties will provide the Company with the opportunity to redeploy capital to uses more aligned with the Company's urban focus.

In addition to the properties which meet the criteria for classification as held for sale, the Company is also targeting for an additional 11 properties comprising 804,000 square feet of GLA and five land parcels with an aggregate fair value of approximately \$241 million to be sold in 2014 and 2015, subject to market conditions.

Acquisitions and Dispositions Subsequent to December 31, 2013

Consistent with 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. First Capital Realty expects to continue current discussions and actively pursue other acquisition, investment and disposition opportunities.

2012 Acquisitions

Total acquisitions of investment properties in 2012, which include shopping centres and additional space and adjacent lands for shopping centres, as well as development land, amounted to \$794 million, adding 2.4 million million square feet of gross leasable area and 15.4 acres of development land to the portfolio.

On August 8, 2012, a court-approved plan of arrangement for Gazit America Inc. (“Gazit America”) was completed involving First Capital Realty and Gazit-Globe Ltd. (“Gazit”). Under the plan of arrangement, First Capital Realty acquired the shares of Gazit America’s subsidiaries, ProMed Properties (CA) Inc. and ProMed Asset Management Inc., which together owned and managed all of the medical office and retail properties of Gazit America, and certain property related inter-company indebtedness owing to Gazit America (hereinafter referred to as the “First Medical acquisition”).

The acquired subsidiaries include the portfolio of real estate properties, property management contracts and leasing and management personnel and represent a business. The transaction was accounted for as a common control business combination using the acquisition method.

The reason for First Capital Realty to complete this transaction was to acquire from Gazit America 12 medical office and retail properties generally adjacent to existing First Capital Realty properties and a 50% interest in a thirteenth property jointly owned with First Capital Realty. As consideration for the acquisition of these assets and liabilities, the Company issued 5,461,786 common shares and assumed certain property-related indebtedness. The common shares issued were valued at their quoted trading price at the time of issue.

The allocation of the purchase price to the assets acquired and liabilities assumed is as follows:

<i>(thousands of dollars)</i>	Assets (Liabilities)
Investment property	\$ 225,664
Other assets	3,843
Secured mortgage debt	(122,804)
Other liabilities	(3,639)
Total share consideration paid	\$ 103,064

Had the transaction occurred as at January 1, 2012, First Capital Realty’s property rental revenue and net income for the year ended December 31, 2012 would have increased by approximately \$14.5 million and \$6.7 million, respectively.

Shopping Centres – Income-Producing Properties

In 2012, the Company invested \$425.7 million in the acquisition of 10 shopping centres and six medical office and retail properties, comprising 1,494,000 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 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								
3080 Yonge Street	Toronto	ON	Q2	✓	—	—	226,000	\$ 58.3
Belmont Professional Centre ⁽¹⁾	Kitchener	ON	Q3	✓	—	—	46,000	10.5
71 King Street West ⁽¹⁾	Mississauga	ON	Q3	✓	—	—	42,000	12.0
1670 Bayview Avenue ⁽¹⁾	Toronto	ON	Q3	✓	—	—	40,000	12.5
Main and Main Developments ⁽²⁾	Toronto	ON	Q3	✓	—	—	13,000	11.7
Main and Main Developments ⁽²⁾	Toronto	ON	Q3	✓	—	—	9,000	9.1
895 Lawrence Avenue East	Toronto	ON	Q4	✓	—	—	30,000	11.2
Eastern Region								
Place Quatre-Bourgeois	Québec City	QC	Q2	✓	✓	✓	243,000	33.0
Nepean Medical Centre ⁽¹⁾	Ottawa	ON	Q3	✓	—	—	47,000	18.1
Les Jardins Millen	Montreal	QC	Q3	✓	✓	✓	56,000	16.0
Galleries Charlesbourg	Québec City	QC	Q4	✓	✓	—	255,000	35.1
2600 Daniel Johnson	Laval	QC	Q4	✓	—	—	68,000	16.0
Western Region								
Shops at New West	New Westminster	BC	Q2	✓	✓	✓	193,000	119.3
31 Sunpark Plaza ⁽¹⁾	Calgary	AB	Q3	✓	—	—	125,000	36.1
Kingway Mews ⁽¹⁾	Edmonton	AB	Q3	✓	—	—	42,000	11.1
West Springs Village ⁽³⁾	Calgary	AB	Q4	✓	—	✓	59,000	15.7
Total							1,494,000	\$ 425.7

⁽¹⁾ Acquired in the First Medical acquisition.

⁽²⁾ The Company consolidates the activities of Main and Main Developments in its consolidated financial statements and information presented is at 100%.

⁽³⁾ 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%.

In addition, as part of the First Medical acquisition, the Company acquired the remaining 50% interest in an existing property as set out 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)
Meadowlark Health and Shopping Centre	Edmonton	AB	Q3	—	✓	✓	150,000	\$ 41.8

Shopping Centres – Additional Space and Adjacent Land Parcels

In 2012, the Company acquired 28 properties adjacent to existing shopping centres adding 903,000 square feet of gross leasable area and 7.4 acres adjacent to existing properties. Total expenditures on these additional interests amount to \$286.9 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						
Hazelton Lanes (Yorkville Avenue)	Toronto	ON	Q2	18,000	—	\$ 15.8
Morningside Crossing (West Hill Shopping Centre)	Toronto	ON	Q3	43,000	—	7.2
Delta Centre (Coronation Medical Centre) ⁽¹⁾	Cambridge	ON	Q3	64,000	—	8.9
Wellington Corners (Base Line Medical Centre) ⁽¹⁾	London	ON	Q3	49,000	—	7.7
Wellington Corners (Westminster Centre) ⁽¹⁾	London	ON	Q3	109,000	—	14.3
216 Elgin Street (Kent Professional Building) ⁽¹⁾	Ottawa	ON	Q3	39,000	—	11.1
Victoria Park Centres (Victoria Terrace)	Toronto	ON	Q4	234,000	—	61.1
Other	Toronto	ON	Q1/Q3/Q4	—	—	5.8
Eastern Region						
Loblaws Plaza (1450 Merivale Road)	Ottawa	ON	Q1	—	0.6	2.4
Carrefour St. David (Boston Pizza)	Québec City	QC	Q2	7,000	—	1.9
Place Viau	Montreal	QC	Q2	—	1.4	1.7
Cole Harbour Shopping Centre (Cumberland Court)	Cole Harbour	NS	Q3	21,000	—	3.0
Place Fleury (10370 – 10372 Papineau)	Montreal	QC	Q3	—	0.1	0.8
Place Quatre-Bourgeois (Place Naviles)	Québec City	QC	Q3	21,000	—	4.7
Place Roland Therrien (Place Adoncour) ⁽¹⁾	Longueuil	QC	Q3	58,000	—	15.7
Centre Commercial Van Horne (5700 Cote-des-Neiges) ⁽¹⁾	Montreal	QC	Q3	92,000	—	25.7
Les Jardins Millen (Jardins Millen II)	Montreal	QC	Q3	—	0.1	0.3
Place Fleury (10360 – 10362 Papineau)	Montreal	QC	Q4	—	0.1	0.9
Place Nelligan	Gatineau	QC	Q4	—	0.8	0.1
Western Region						
Mount Royal Village (The Devenish)	Calgary	AB	Q1	43,000	—	22.2
Langford Centre (2800 Bryn Maur Road)	Langford	BC	Q1	16,000	—	3.9
Macleod Trail (9206 Macleod Trail)	Calgary	AB	Q2	—	2.6	11.0
Mount Royal Village (1515 – 8th Street)	Calgary	AB	Q2	—	1.2	6.0
Mount Royal Village (815 – 17th Avenue)	Calgary	AB	Q3	50,000	—	39.4
Time Marketplace (Empire Theatre, 200 West Esplanade)	Vancouver	BC	Q3	39,000	—	12.5
Broadmoor Shopping Centre (9900 No. 3 Road)	Richmond	BC	Q4	—	0.5	2.8
Total				903,000	7.4	\$ 286.9

⁽¹⁾ Acquired in the First Medical acquisition.

Development Lands

In 2012, the Company invested \$39 million in the acquisition of 12 development land parcels, comprising 8 acres for future development of retail and mixed-use space. These acquisitions are set out in the table below:

Property Name	City	Province	Quarter Acquired	Acreage	Acquisition Cost (in millions)
Main and Main Developments ⁽¹⁾	Toronto/Ottawa	ON	Q1, Q2, Q3, Q4	2.4	\$ 24.8
5500 Dundas Street West	Toronto	ON	Q1	2.4	6.2
Edmonton Brewery District ⁽²⁾	Edmonton	AB	Q3	3.2	8.0
Total				8.0	\$ 39.0

⁽¹⁾ The Company consolidates the activities of Main and Main Developments in its consolidated financial statements and information presented is at 100%.

⁽²⁾ The property was acquired on a 50% co-ownership basis. The acquisition cost and acreage represents the Company's proportionate participation in this property. The property is adjacent to the Company's existing Longstreet Shopping Centre.

2012 Dispositions

In 2012, the Company sold nine shopping centres and 50% interests in two shopping centres representing 1,206,000 square feet of gross leasable area and two land parcels adjacent to a shopping centre of 2.9 acres. Gross proceeds of these dispositions were \$302.8 million.

Property Name	City	Province	Quarter Sold	Gross Leasable Area (square feet)	Acreage	Gross Sales Price (in millions)
Central Region						
Orleans Gardens ⁽¹⁾	Ottawa	ON	Q1	55,000	—	
Brantford Commons	Brantford	ON	Q2	315,000	—	
Chemong Park Plaza	Peterborough	ON	Q3	75,000	—	
Parkway Centre	Peterborough	ON	Q3	264,000	—	
2255 Dundas St.	Mississauga	ON	Q4	—	2.6	
Eastern Region						
Place des Cormiers & Place de la Colline	Sept-Iles & Chicoutimi	QC	Q2	125,000	—	
Carré Normandie (Galeries Normandie)	Montreal	QC	Q2	—	0.3	
Western Region						
Woodgrove Crossing	Nanaimo	BC	Q1	59,000	—	
Woolridge Building	Coquitlam	BC	Q1	37,000	—	
Village Market & Sherwood Towne Square ⁽²⁾	Sherwood Park	AB	Q2	173,000	—	
Dickson Trail	Airdrie	AB	Q3	52,000	—	
Coronation Mall	Duncan	BC	Q4	51,000	—	
Total				1,206,000	2.9	\$ 302.8

⁽¹⁾ The Company sold its 50% interest in this shopping centre.

⁽²⁾ The Company has retained a 50% interest in this shopping centre and provides asset and property management services.

In aggregate, the gross sales price on the 2012 sales have exceeded invested cost by approximately \$64.0 million. Total mortgages assumed by the purchasers aggregated \$37.8 million, with a weighted average cash interest rate of 6.36%. The 2012 dispositions were in line with the Company's ongoing strategy of increasing the portfolio's focus on core urban markets.

In addition, the Company received payment of the US\$36 million non-revolving unsecured term loan from Gazit America on August 14, 2012.

2013 Investment Property Development and Redevelopment Activities

Development and redevelopment activities are completed selectively, based on opportunities in the Company's properties or in the markets where the Company operates. The Company's development projects comprise ground-up projects, major redevelopment and other incremental redevelopment and expansions on stable properties. All development activities are strategically managed to reduce risk and properties are generally developed after obtaining anchor lease commitments. A summary of the Company's development portfolio is as follows:

As at December 31, 2013

(thousands of dollars, except for other data)

	Planned Square Feet Upon Completion	Gross Leasable Area (square feet)	Square Feet Under Development	Total Est. Cost incl. Land	Investment Cost	Estimated Cost to Complete
Same property with incremental redevelopment and expansion						
Active development and at completion	—	—	26,647	16,037	7,156	8,881
In pre-development	—	—	35,743	38,580	13,281	25,299
	—	—	62,390	\$ 54,617	\$ 20,437	\$ 34,180
Major redevelopment:						
Active development and at completion	1,383,628	1,236,114	147,514	467,718	420,012	47,706
In pre-development	TBD	1,751,403	TBD	TBD	523,840	TBD
	1,383,628	2,987,517	147,514	467,718	943,852	47,706
Ground-up development						
Active development and at completion	801,383	674,346	127,037	277,137	263,529	13,608
In pre-development	160,000	—	160,000	TBD	4,877	TBD
	961,383	674,346	287,037	277,137	268,406	13,608
Total	2,345,011	3,661,863	496,941	\$ 799,472	\$ 1,232,695	\$ 95,494

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately \$95.5 million. Costs to complete for major redevelopments and ground-up developments, respectively, are planned at \$24 million and \$12 million in 2014, and \$23 million and \$2 million in 2015 and beyond. The cost to complete major redevelopments and ground-up developments that are currently in the pre-development stage are labelled "to be determined" (TBD) as they have not yet been finalized.

The properties in the development pipeline are summarized in the tables below by property category (same property with incremental redevelopment and expansion; major redevelopments and ground-up development) and by development status (active development, at completion, in pre-development).

Same Property with Incremental Redevelopment and Expansion

Highlights of the Company's current same property with incremental redevelopment and expansion projects are summarized in the table below. As at December 31, 2013, the invested cost in these projects totalled \$20 million, and includes incremental investment primarily related to pads or building extensions and often include facade, parking, lighting and building upgrades. Of the 26,647 square feet under active redevelopment, 14,280 square feet is subject to committed leases at a weighted average rate of \$23.20 per square foot. The Company is currently in various stages of negotiations for the remaining planned space.

As at December 31, 2013

(thousands of dollars, except for other data)

No.	Property	Building to LEED Standards ⁽¹⁾	Tenants	Square Feet Under Development	Target Completion Date	Est. Cost incl. Land Total	Investment Cost	Cost to Complete
Same property with incremental redevelopment and expansion with active development								
	Eagleson Place Ottawa, ON	✓	Daycare building	10,000	Q1, 2014	\$ 4,482	\$ 3,706	\$ 776
	Plaza Actuel/ Carrefour St-Hubert, Longueuil, QC	✓	RBC Royal Bank	7,847	Q3, 2016	3,784	1,142	2,642
	Carrefour St. David, Beauport, QC	✓	Gold's Gym	3,800	Q3, 2016	2,851	559	2,292
	Red Deer Village Red Deer, AB		Various tenants	5,000	Q1, 2014	2,204	1,715	489
4				26,647		\$13,321	\$ 7,122	\$ 6,199
Same property with incremental redevelopment and expansion – at completion								
	Credit Valley Town Plaza Mississauga, ON	✓	TD Canada Trust	—	Q3, 2013	\$ 593	\$ —	\$ 593
	Centre Commercial Cote St-Luc, Montreal, QC	✓	McDonalds ⁽²⁾	—	Q3, 2013	—	—	—
	Galleries des Chesnays, Terrebonne, QC	✓	RBC Royal Bank	—	Q4, 2013	788	—	788
	Gloucester City Centre, Ottawa, ON		Rexall, Pet Valu	—	Q4, 2013	678	—	678
	Place Nelligan, Gatineau, QC	✓	Dollarama	—	Q4, 2013	352	—	352
	Hunt Club Marketplace, Ottawa, ON	✓	Dollarama	—	Q4, 2013	65	34	31
	Place Pointe-aux-Trembles, Montreal, QC		Dollarama	—	Q3, 2013	240	—	240
7						\$ 2,716	\$ 34	\$ 2,682
Same property with incremental redevelopment and expansion – in pre-development								
	Place Lorraine, Lorraine, QC	✓		13,543	Q4, 2016	\$15,703	\$ 2,036	\$ 13,667
	Carrefour Belvedere, Sherbrooke, QC	✓		14,200	Q3, 2015	14,902	8,421	6,481
	Loblaws Plaza, Ottawa, ON			8,000	Q2, 2016	7,975	2,824	5,151
3				35,743		\$38,580	\$ 13,281	\$ 25,299
14	Total same property with incremental redevelopment and expansion			62,390		\$54,617	\$ 20,437	\$ 34,180

⁽¹⁾ The Company's policy is to build to LEED standards subject to tenant acceptance and existing physical structure limitations. Refer to the "Corporate Responsibility and Sustainability" section of this MD&A.

⁽²⁾ Land lease

In addition to the projects listed in the table above, the same property with incremental redevelopment and expansion projects include eight properties with projects completed in prior periods. A further eight properties have projects in the early pre-development and advanced planning stages. These projects, together with the projects listed in the table above, make up the 30 properties classified as same property with incremental redevelopment and expansion.

Major Redevelopment and Ground-up Development

The Company's properties with major redevelopment or ground-up development currently in progress or at completion are expected to yield an average going-in NOI yield of 6.5% on completion, and range from 6% to 7%. This yield is derived from the expected run rate based on stabilized leasing and operations following completion of the development, and includes all building cost, land cost, interest and other carrying costs as well as capitalized staff compensation and other expenses. However, actual rates of return could differ if unforeseen events cause actual results to differ from assumptions. The yield reflects the Company's high standards in construction, lighting, parking, access, pedestrian amenities, accessibility as well as development to LEED standards. The quality of the Company's construction is consistent with the strategy of long term ownership and value creation.

Major Redevelopment

The Company classifies 16 properties totalling \$1.1 billion in invested cost as properties with major redevelopment activities. Of the 147,514 square feet under active redevelopment, 57,391 square feet is subject to committed leases, including a supermarket tenant, at a weighted average rate of \$23.32 per square foot. In addition, approximately 38,800 square feet of space is in the latter stages of lease negotiations with two national retailers. As construction on these redevelopment projects is phased, there continues to be ongoing negotiations in various stages with certain retailers for the remaining planned space.

Highlights of the Company's current major redevelopment underway, including costs for completed phases, are as follows:

As at December 31, 2013

(thousands of dollars, except for other data)

No.	Property	Building to LEED Standards (1)	Major Tenants	Planned Square Feet Upon Completion	Completed Square Feet	Square Feet Under Development	Target Completion Date	Total Est. Cost incl. Land	Investment Cost	Estimated Cost to Complete	Fair Value
Major redevelopment – with active development											
	Centre D'achats Ville Mont-Royal, Montreal, QC	✓	Provigo, Pharmaprix	155,966	129,954 ⁽²⁾	26,012	Q3, 2016	\$ 55,871	\$ 24,362	\$ 31,509	
	Port Place Shopping Centre, Nanaimo, BC		London Drugs, Thrifty Foods, CIBC, TD Canada Trust, MediArts	153,367	149,367	4,000	Q4, 2013	58,529	56,970	1,559	
	Mount Royal Village, Calgary, AB		London Drugs, Oasis Spa and Wellness, Goodlife Fitness	232,155	114,653	117,502	Q4, 2014	57,475	45,033	12,442	
3				541,488	393,974	147,514		\$ 171,875	\$ 126,365	\$ 45,510	

MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

As at December 31, 2013

(thousands of dollars, except for other data)

No.	Property	Building to LEED Standards ⁽¹⁾	Major Tenants	Planned Square Feet Upon Completion	Completed Square Feet	Square Feet Under Development	Target Completion Date	Total Est. Cost incl. Land	Investment Cost	Estimated Cost to Complete	Fair Value
Major redevelopment – at completion											
	146 Lakeshore Road West Oakville, ON	✓	Starbucks	20,817	20,817	—	2013	\$ 14,661	\$ 14,661	\$ —	
	5051 – 5061 Yonge St., Toronto, ON		Michael's, Jack Astor's	37,307	37,307	—	2013	26,989	26,802	187	
	Chartwell Shopping Centre, Toronto, ON	✓	Bestco Food, CIBC, Dollarama	150,606	150,606	—	2013	51,768	51,655	113	
	Appleby Village Burlington, ON	✓	Fortinos, Bank of Montreal, RBC Royal Bank, Pharma Plus, The Beer Store, LCBO, Women's Fitness	251,361	251,361	—	2013	70,371	70,371	—	
	Carrefour Soumande Quebec City, QC		Super C, Bouclair	118,858	118,858	—	2013	21,755	20,467	1,288	
	Broadmoor Shopping Centre Richmond, BC	✓	Shoppers Drug Mart, RBC Royal Bank, Coast Capital, 68 residential units	47,093	47,093 ⁽⁵⁾	—	2013	58,204	57,743	461	
	Deer Valley Marketplace, Calgary, AB		Co-Op, Walmart, Shoppers Drug Mart, Dollarama, CIBC, RBC Royal Bank, Liquor Store	216,098	216,098	—	2013	52,095	51,948	147	
7				842,140	842,140	—		\$ 295,843	\$ 293,647	\$ 2,196	

As at December 31, 2013

(thousands of dollars, except for other data)

No.	Property	Building to LEED Standards ⁽¹⁾	Development Status	Current Square Feet ⁽²⁾	Total Est. Cost incl. Land	Investment Cost	Estimated Cost to Complete	Fair Value
Major redevelopment – in pre-development								
	Humbertown Shopping Centre, Toronto, ON	✓	Rezoning pending	109,101		\$ 55,583		
	Hazelton Lanes, Toronto, ON	✓	Entitlements pending	212,501		140,385		
	Victoria Park Centres, Toronto, ON		Planning underway	258,491		69,033		
	Place Portobello, Brossard, QC		Planning underway	574,784		84,450		
	Semiahmoo Shopping Centre, Surrey, BC	✓	Planning underway	296,620		94,786		
	Macleod Trail, Calgary, AB	✓	Planning underway	299,906		79,603		
6				1,751,403		\$ 523,840		
16	Total major redevelopment			2,987,517	\$ 467,718	\$ 943,852	\$ 47,706	\$ 994,046
	Properties adjacent acquired in 2013 and 2012 included in acquisitions ⁽⁴⁾					\$ 164,254		\$ 164,188

⁽¹⁾ The Company's policy is to build to LEED standards subject to tenant acceptance and existing physical structure limitations. Refer to the "Corporate Responsibility and Sustainability" section of this MD&A.

⁽²⁾ Represents the square footage of the existing area that will be demolished.

⁽³⁾ Includes vacant units held for redevelopment.

⁽⁴⁾ Refer to the "Business and Operations Review - 2013 Acquisitions" and "Business and Operations Review - 2012 Acquisitions" sections of this MD&A.

⁽⁵⁾ Excludes 68,000 square feet of residential space.

Details of certain major redevelopment properties are included in the Company's largest properties summaries (refer to the "Business Operations Review - Real Estate Investments" section of this MDA). Additional details of three major redevelopment projects are included below:

Centre D'Achats Ville Mont-Royal Assets, Montreal, Quebec

The Centre D'Achats Ville Mont-Royal assets is an assembly of five separate properties comprising three assets totalling 130,000 square feet with 477 parking stalls on 8.7 acres located in the affluent borough of Centre D'Achats Ville Mont-Royal. The population within five kilometres is approximately 415,000 with an average household income of approximately \$73,000. Major tenants include Provigo (Loblaws), Pharmaprix (Shoppers Drug Mart), Scotiabank, Starbucks, and other restaurants and personal services.

The Company has obtained municipal approval for the redevelopment of the shopping centre asset, and commenced construction in late 2013 on the first phase of the redevelopment comprising a multi-tenant single-level building in the parking lot of the existing shopping centre. Completion of this first phase will permit the Company to proceed thereafter with the remainder of the redevelopment, including demolition of the existing shopping centre and the construction of a 49,000 square foot Provigo Le Marché (Loblaws) on the second floor of a multi-tenant building.

Further phases will complete redevelopment and rebranding of this well-located shopping centre. Subject to final plans and approvals being obtained, once completed the redeveloped shopping centre is expected to include approximately 129,000 square feet of retail/commercial space, 420 parking at grade and may incorporate residential density.

Humbertown Shopping Centre, Toronto, Ontario

Humbertown Shopping Centre, originally developed in 1958, is a 109,000 square foot grocery-anchored property located on 9.0 acres of land on The Kingsway in one of Toronto's most affluent residential neighbourhoods. Population within five kilometres is approximately 321,000 with an average household income of approximately \$94,000. Major tenants currently include Loblaws, Shoppers Drug Mart, RBC Royal Bank, Scotiabank, LCBO and other restaurants, medical and personal services.

The Company's Humbertown Shopping Centre rezoning application received City of Toronto council approval in late 2013 and received the final approval by the Ontario Municipal Board on January 23, 2014. These approvals will permit the redevelopment of Humbertown Shopping Centre into a mixed-use property that will include 235,000 square feet of retail and commercial uses in five buildings and 550,000 square feet of residential, which will include condominiums, townhomes and a seniors' residential building, with a total of 1,495 parking stalls (including 815 stalls for retail/commercial use, substantially all of which are underground). The residential component of the property is expected to be developed in a partnership with a leading residential developer. Once completed, the Company expects the redeveloped Humbertown Shopping Centre to continue to be anchored by a grocery store and other daily necessity retailers and service providers.

Ground-up Development

The Company classifies four properties totalling \$281 million of invested cost as ground-up development properties underway or completed. Of the 127,037 square feet under active development, approximately 51,850 square feet of space is in the latter stages of lease negotiations with national retailers. As construction on ground-up developments is phased, there continues to be ongoing negotiations in various stages with certain retailers for the remaining planned space.

Highlights of the Company's current ground-up projects underway, including costs for completed phases, are as follows:

As at December 31, 2013											
<i>(thousands of dollars, except for other data)</i>											
No.	Property	Building to LEED Standards ⁽¹⁾	Major Tenants	Planned Square Feet Upon Completion	Completed Square Feet ⁽²⁾	Square Feet Under Development	Target Completion Date	Total Est. Cost incl. Land	Investment Cost	Estimated Cost to Complete	Fair Value ⁽³⁾
Ground-up development – with active development											
	Carrefour du Plateau-des-Grives, Gatineau, QC	✓	IGA, National Bank, Dollarama, McDonalds	114,637	114,637	—	Q1, 2014	\$ 31,773	\$ 31,492	\$ 281	
	Place Viau Montreal, QC	✓	Walmart	337,840	210,803	127,037	Q2, 2014	126,532	114,504	12,028	
2	Total ground-up development – with active development			452,477	325,440	127,037		\$ 158,305	\$ 145,996	\$ 12,309	
Ground-up development – at completion											
	Leaside Village Toronto, ON	✓	Longo's, The Beer Store, CIBC, Linen Chest, Pet Valu	111,765	111,765	—	Q1, 2013	\$ 48,206	\$ 48,206	\$ —	
	Clairfield Commons (Pergola Commons), Guelph, ON	✓	Cineplex, Bank of Montreal RBC Royal Bank, GoodLife Fitness, Dollarama, JYSK, The Beer Store	228,679	228,679	—	Q4, 2013	69,152	67,853	1,299	
	Fuzion, Toronto, ON ⁽⁴⁾	✓		8,462	8,462	—		1,474	1,474	—	
2	Total ground-up development – at completion			348,906	348,906	—		\$ 118,832	\$ 117,533	\$ 1,299	
Ground-up development – in pre-development											
	KingsClub, Toronto, ON ⁽⁴⁾			160,000	—	160,000		\$ —	\$ 4,877		
4	Total ground – up development			961,383	674,346	287,037		\$ 277,137	\$ 268,406	\$ 13,608	\$ 320,123
Properties adjacent acquired in 2013 and 2012 included in acquisitions ⁽⁵⁾									\$ 13,081	\$ 12,819	

⁽¹⁾ The Company's policy is to build to LEED standards subject to tenant acceptance and existing physical structure limitations. Refer to the "Corporate Responsibility and Sustainability" section of this MD&A.

⁽²⁾ Constructed square footage for which leases have been signed is 97% for Central region and 98% for Eastern region.

⁽³⁾ Fair value by region is \$151 million for Central region and \$169 million for Eastern region.

⁽⁴⁾ Fuzion and KingsClub are properties adjacent to Shops at King Liberty and therefore are not included in the count.

⁽⁵⁾ Refer to the "Business and Operations Review - 2013 Acquisitions" and "Business and Operations Review - 2012 Acquisitions" sections of this MD&A.

Investment Properties at Cost with Bifurcation of Income Producing and Development Activity Components

A summary of the Company's proportionate interest in total investment properties at cost as at December 31, 2013, with bifurcation of the income producing and development activity components, is as follows:

	Number of Sites/ Properties ⁽¹⁾	Square Feet ⁽²⁾ (in thousands)	Investment Cost (in millions)	Fair Value (in millions)
Shopping centres – income-producing only	164	24,462	\$ 5,684	
Shopping centres with development activities ^{(1) (3)}				
Same property with incremental redevelopment and expansion	14	62	20	
Major redevelopment	16	148	121	
Ground-up development	4	287	61	
	34	497	202	
Adjacent land parcels ⁽¹⁾				
Land parcels adjacent to/part of existing properties	32	956	92	
Land parcels adjacent to/part of existing properties available for expansion	4	43	—	
Property held for redevelopment	2	86	5	
Other development related costs	—	—	20	
	38	1,085	117	
Total shopping centres with development activities or potential development activities	72	1,582	319	
Total shopping centres			\$ 6,003	\$ 7,175
Development land ⁽⁴⁾	10	1,599	161	166
Total		3,181	\$ 6,164	\$ 7,341

⁽¹⁾ Property counts of shopping centres undergoing development activities and adjacent land parcels are included in the total property count for income-producing shopping centres of 164.

⁽²⁾ Includes both municipally approved developable commercial square feet and square feet the Company expects to be approved, excluding residential density until zoning process is complete.

⁽³⁾ Includes cost for phases under development only. Aggregate cost of the Company's investment under development is approximately \$502 million, which includes shopping centres with development activities or potential of development activities of approximately \$319 million, development land of approximately \$161 million and residential development inventory of approximately \$22 million (see below).

⁽⁴⁾ Number of sites and square feet do not include properties held through Main and Main Developments. See the "Business Operations Review - 2013 Investment Property Development and Redevelopment Activities" section of this MD&A.

The Company has currently identified 3.2 million square feet available in the portfolio for future development of retail space as follows:

Shopping Centres with Development Activities

The Company currently has 497,000 square feet of retail space consisting of incremental redevelopment and expansion, major redevelopment and ground-up development that is planned with some buildings under construction. Refer to the "Business Operations and Review - 2013 Investment Property Development and Redevelopment Activities" section of this MD&A.

Adjacent Land Parcels

The Company has 38 land parcels adjacent to existing shopping centres with future redevelopment or expansion potential of approximately 1.1 million square feet. Certain of these adjacent land parcels are in various stages of development and in various property categories.

Development Lands

The Company has 10 land sites of which one is in the planning stages of pre-development and two are classified as held for sale. These properties have potential if developed, to provide a further 1.0 to 1.5 million square feet of leasable area to the shopping centre portfolio. The Edmonton Brewery District land site is in the latter stages of pre-development with construction to commence as early as the second quarter of 2014, as further discussed below.

Development land by region is as follows:

Region	Number of Sites/ Properties	Square Feet (in thousands)	Acreage	Fair Value (in millions)
Central	5	557	41	\$ 119
Eastern	2	228	14	9
Western	3	814	67	38
Total	10	1,599	122	\$ 166

The development land in the above table also includes the Company's investment in Main and Main Developments, which is discussed below.

Details on select development land projects are discussed below:

Edmonton Brewery District, Edmonton, Alberta

Edmonton Brewery District is a 14.3 acre land site located on 104th Avenue in downtown Edmonton. The estimated population within five kilometers is 185,000 with an average household income of \$81,000.

The Company obtained rezoning approval for Edmonton Brewery District in late 2013 to allow for retail, office and high-density residential use. The Company is presently in the process of obtaining its development permit for the project and may start construction as early as the second quarter of 2014. This is a 50% development project with a partner, Sun Life Financial.

Edmonton Brewery District's unique design will incorporate certain buildings from the Molson brewery that previously operated on the site. Upon completion of its two phases of development, the property is expected to comprise approximately 267,000 square feet of retail and 70,000 square feet of office, with a total of 390 at grade and 590 underground parking stalls. The project enjoys strong interest and the Company is in advanced lease negotiations with various tenants. In addition, the site includes three acres of development land that is intended in the future to be sold to a third party residential developer for construction of approximately 430,000 square feet of residential density.

Following completion, Edmonton Brewery District is expected to be directly linked to the 120th Street Station on the West LRT line (light rapid transit) that is planned to be built by the City of Edmonton. Edmonton Brewery District is located diagonally across the street from the Company's existing 45,000 square foot Longstreet Shopping Centre.

Main and Main Developments

The Company is partnering with a private developer ("Main and Main Developments") to acquire strategic assets in underserved transit-oriented retail nodes. A core component of Main and Main Developments' acquisition strategy revolves around identifying and acquiring assets that have the potential to increase in value as a result of demographic growth, income growth and new urban retail formats. Main and Main Developments will seek to generate profits through acquisition, rezoning and redevelopment of real estate with a focus in Toronto and Ottawa. Value creation will be accomplished through rezoning and redevelopment of the properties to their highest and best use and/or mixed use development. The Main and Main Developments team brings a skill set and focus to the assembly and redevelopment of sites which are much smaller than the Company's typical properties and are normally acquired or assembled via multiple adjacent parcel acquisitions, often from private individuals. The Company has a 67% equity interest in Main and Main Developments and consolidates its activities in its consolidated financial statements. During the year ended December 31, 2013, Main and Main Developments completed acquisitions in three new assembly projects for \$20.7 million. In addition, Main and Main Developments completed the sale of a 40% interest in one assembly for \$3.9 million. Since inception, Main and Main Developments has completed acquisitions of 33 parcels making up 17 assemblies for future development projects, which have an aggregate fair value of approximately \$124 million as at December 31, 2013, which compares to \$97.8 million at December 31, 2012. As at December 31, 2013, Main and Main Developments had additional acquisitions underway, one of which was completed during Q1 2014 for \$3.5 million, adding to one assembly. Each of the 17 assembly projects is located on a major street in Toronto or Ottawa. Two projects in Toronto and one project in Ottawa are currently in the pre-development planning stage.

Main and Main Developments generally expects to partner with residential developers in executing value creation opportunities on sites with residential density and intends to retain the retail component and in some cases may retain the rental residential component upon stabilization of the asset. The Company has provided Main and Main Developments with senior and mezzanine debt financing in connection with the acquisition and development of sites.

Residential Development Inventory

As at December 31, 2013

(thousands of dollars, except for other data)

Property	Number of Units Constructed	Number of Units Pre-Sold	% of Units Pre-Sold	Number of Units Occupied (Interim)	Target Fully Occupied/Completion Date	Total Est. Cost incl. Land (at 50%)	Investment Cost (at 50%)	Estimated Costs to Complete (at 50%)	2013 Year-To-Date Sales Revenue (at 50%)	Debt Funded by Third Parties (at 50%)
Shops at King Liberty (Fuzion)	246	242	98.4%	238	Q1, 2014	\$ 29,255	\$ 27,979	\$ 1,276	\$ 28,850	\$ 27,224
Shops at King Liberty (KingsClub)	TBD	184	TBD	—	2017	—	15,976	—	—	3,573
1071 King Street						—	3,498	—	—	—
							47,453		28,850	
Less: 2013 Year-To-Date Cost of Sales (at 50%) – Fuzion							(25,884)		(25,884)	
As at, and for the year ended, December 31, 2013						\$	21,569	\$	2,966	

The Company is partnering 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 project and recognizes its right to the assets and obligations for liabilities in its financial results. The project includes two phases: Fuzion and KingsClub. The Company's residential development inventory comprises the construction and sale of residential condominium units. The Company recognizes revenue from the sale of residential units upon substantial completion. The Company considers substantial completion for each residential unit to be the point in which the purchaser has paid all amounts due on interim closing and has the right to occupy the premises, has demonstrated collectability of the balance due at closing, and has received an undertaking from the property owners to be assigned title in due course, or when title has transferred.

Fuzion consists of 246 residential units (244 sellable and two guest suites, which will be sold to the condominium association) in a condominium tower and approximately 9,000 square feet of retail based on entitlements. The Company has the option to acquire the retail space from the project. Interim occupancy for the Fuzion residential units commenced during the first quarter of 2013 and registration and final closings commenced in Q1, 2014. For the year ended December 31, 2013, 240 of the 244 sellable units were sold and 238 units took possession and occupancy. Subsequent to year end, the remaining two units were sold, as well as the two guest suites, and purchasers are expected to take possession and occupancy prior to registration and final closing. In connection with the occupancies, the Company has recorded \$25 million in loans receivable (Note 8 to the financial statements) and \$5 million in escrow deposits (Note 10 to the financial statements), which will be received at the time of registration and final closing. Additionally, the Company is indebted on the project in the amount of \$27.2 million, which will be repaid upon receipt of the loans receivable and deposits in escrow. This indebtedness consists of a \$22.0 million credit facility included in mortgages (Note 12 to the financial statements) and \$5.2 million in other third-party financing included in accounts payable and other liabilities (Note 16 to the financial statements).

Subsequent to year end, registration and final closings occurred on 233 units. Proceeds at the Company's 50% interest of approximately \$26 million were received of which approximately \$22 million was directed to repay the Company's indebtedness on the project's credit facility.

The second phase, KingsClub, is in pre-sale phase with construction underway in the excavation stage. Management expects that there will be approximately 160,000 square feet of retail in this phase and approximately 500 residential units for sale or rental once entitlements are completed, based on current market and site conditions. The expected timing for occupancy is estimated to be 2016 with unit closings in 2017. The KingsClub sales centre is open at the 1071 King Street location.

The following table summarizes the Company's residential inventory investment activity:

<i>(millions of dollars)</i>	Year ended December 31	
	2013	2012
Balance at beginning of year	\$ 33	\$ 19
Expenditures	15	14
Recognized as cost of sales	(26)	—
Balance at end of year	\$ 22	\$ 33

Capital Expenditures on Investment Properties

Capital expenditures are incurred by the Company for maintaining and/or renovating its existing shopping centres. In addition, the Company also incurs expenditures for the purposes of expansion, redevelopment and development activities.

Revenue sustaining capital expenditures are required for maintaining the Company's shopping centre infrastructure and revenues from leasing of existing space. Revenue sustaining capital expenditures are not recoverable from tenants. Typical costs relate to ongoing investments of capital for tenant leasing costs related to new and renewal leasing, and capital to physically maintain its shopping centres such as roof replacement programs and resurfacing of parking lots.

Revenue enhancing capital expenditures are those expenditures that increase the revenue generating ability of the Company's shopping centres. Revenue enhancing capital expenditures are incurred in conjunction with or in contemplation of a development or redevelopment strategy, or related to acquisition or disposition of the same property category. Capital expenditures incurred in development and redevelopment projects include pre-development costs, direct construction costs, borrowing costs, and overhead including applicable salaries and other direct costs of internal staff directly attributable to the projects under active development.

Additionally, certain tenant leases provide the ability to recover from tenants over time a portion of capital investments to physically maintain the Company's shopping centres as property operating costs.

Revenue sustaining capital expenditures are dependent upon many factors, including the age and location of the Company's shopping centres. The Company owns and actively seeks to acquire older, well-located shopping centres in urban locations, where expenditures tend to be higher when they are subsequently repaired or conditions brought up to the Company's standards or redeveloped. As at December 31, 2013, the weighted average age based on year constructed or redeveloped and square footage, for the Company's total shopping centre portfolio was as follows:

	5 year or newer	6 – 10 years	11 – 15 years	16 – 20 years	Over 20 years
Total Portfolio	19%	28%	18%	11%	24%
Central	18%	30%	16%	14%	22%
Eastern	18%	36%	12%	8%	26%
Western	23%	17%	27%	10%	23%

In addition to property category, the Company also considers property age, the potential effects on occupancy and future rents per square foot, the time leasable space has been vacant and other factors when assessing whether a capital expenditure is revenue enhancing or sustaining.

In the fourth quarter of 2013, the definition of revenue sustaining capital expenditures has been further refined by property category in order to be consistent with how the Company evaluates and categorizes its business operations. Previously, revenue sustaining capital expenditures were bifurcated in all property categories. The refinement excludes from revenue sustaining capital expenditures, those expenditures incurred in conjunction with a ground-up development, major redevelopment, acquisition and disposition activities which are, by their nature value enhancing activities.

Historically, the Company's revenue sustaining expenditures on same property range from \$0.81 to \$0.87 per square foot per annum, with a three-year weighted average on same property of \$0.84 per square foot (three years ended December 31, 2012 - \$0.82 per square foot). Revenue sustaining expenditures on same property for the year ended December 31, 2013 totalled \$0.87 per square foot compared to \$0.84 per square foot for 2012. Over the past three years, the Company has increased its expenditures on roof and parking lot replacements in the same property category at several of its shopping centres, which will reduce its ongoing maintenance expenditures at these centres going forward.

Revenue sustaining and enhancing capital expenditures on investment properties, which include shopping centres and development land, are as follows:

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
Revenue sustaining – same property – stable	\$ 11,691	\$ 9,809
Revenue sustaining – same property with incremental development and expansion	3,419	4,321
Revenue sustaining – total same property	15,110	14,130
Enhancing capital expenditures:		
Revenue enhancing and other	49,546	62,966
Expenditures recoverable from tenants	14,463	8,706
Development expenditures	187,406	234,972
Total	\$ 266,525	\$ 320,774

Capital expenditures on the shopping centre portfolio by property categorization are as follows:

<i>(thousands of dollars)</i>	2013			2012		
	Same Property – Stable	Same Property with incremental redevelopment and expansion	Total	Same Property – Stable	Same Property with incremental redevelopment and expansion	Total
Revenue sustaining	\$ 11,691	\$ 3,419	\$ 15,110	\$ 9,809	\$ 4,321	\$ 14,130
Revenue enhancing and other	15,415	17,343	32,758	19,103	23,995	43,098
Expenditures recoverable from tenants	1,062	3,956	5,018	4,879	2,386	7,265
Development expenditures	—	38,548	38,548	—	49,503	49,503
Total – Same property	28,168	63,266	91,434	33,791	80,205	113,996
Major redevelopment			68,803			67,500
Ground-up development			65,272			94,247
Acquisitions – 2013			1,822			8,022
Acquisitions – 2012			24,384			13,831
Investment properties classified as held for sale			2,894			13,349
Dispositions – current and prior year			2,345			1,927
Development land			9,571			7,902
Total			\$ 266,525			\$ 320,774

A reconciliation of capital expenditures on investment properties to the consolidated statements of cash flows is as follows:

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
Cash flow used in operating activities – deferred leasing costs	\$ 5,095	\$ 5,108
Cash flows used in investing activities – capital expenditures on investment property	261,430	315,666
	\$ 266,525	\$ 320,774

2013 Leasing and Occupancy

Total portfolio occupancy as at December 31, 2013 of 95.5% compares to 95.6% as at December 31, 2012. Same property – stable occupancy totalled 97.6% (December 31, 2012 - 97.6%) and comprises 12 million square feet (December 31, 2012 – 12 million square feet), or approximately half of the portfolio. The balance of the occupancy (by property category) ranges from 91% to 98% and provides for potential net operating income growth as the redevelopment, development and expansion activities are completed.

Occupancy comparing the Company's shopping centre portfolio by property categorization as at December 31 is as follows:

<i>(square feet in thousands, except other data)</i>	December 31, 2013			December 31, 2012		
	Total Occupied Square Feet	% Occupied	Weighted Average Rate per Occupied Square Foot	Total Occupied Square Feet	% Occupied	Weighted Average Rate per Occupied Square Foot
Same property – stable	11,652	97.6%	\$ 17.91	11,646	97.6%	\$ 17.73
Same property with incremental redevelopment and expansion	5,358	95.6%	17.91	5,262	95.1%	17.65
Major redevelopment	2,725	91.2%	18.50	2,649	92.9%	18.35
Ground-up development	663	98.2%	22.80	487	95.8%	22.25
Investment properties classified as held for sale	741	91.3%	11.87	765	94.5%	11.75
Total portfolio before acquisitions and dispositions	21,139	96.0%	\$ 17.93	20,809	96.2%	\$ 17.68
Acquisitions – 2013	269	94.0%	\$ 27.92	—	—	\$ —
Acquisitions – 2012	1,964	90.9%	16.92	2,054	91.1%	16.82
Dispositions – 2013	—	—	—	1,010	93.5%	15.38
Total	23,372	95.5%	\$ 17.96	23,873	95.6%	\$ 17.51

For the year ended December 31, 2013, gross new leasing totalled 1,007,000 square feet including development and redevelopment spaces coming on line. This gross new leasing will generate additional minimum rent of approximately \$21.4 million (excluding sold properties). The Company achieved a 10.0% increase on 1,419,000 square feet of renewal leases over the expiring lease rates (10% excluding sold properties). Net tenant closures totalled 23,000 square feet for the year. This is primarily due to the non-renewal of leases that expired during the year, with no immediate tenants to backfill the space. The nominal 2013 increase in all openings versus all closures of 1.3% was impacted by shorter term leases at lower rates to accommodate tenant repositioning or property redevelopment activities, anchor tenant openings at market rates which are typically lower than the rate per square foot for smaller CRU spaces and lower rental rate per square foot increases on ancillary office space leased during the year.

The average rate per occupied square foot excluding acquisitions and dispositions increased to \$17.74 as at December 31, 2013 from \$17.51 as at December 31, 2012. The increase is a result of the leasing and development activity in the period. Including acquisitions and dispositions, the average rate per occupied square foot increased to \$17.96.

Management believes that the weighted average rental rate per square foot for the portfolio would be in the range of \$23.00 to \$25.00, if the portfolio were at market. The Company continues to seek well-located properties in urban markets with below market rent for future value creation activities. The weighted average lease term for the portfolio is 5.9 years as at December 31, 2013, excluding options in favour of tenants, and including month-to-month and other short-term leases with tenants in properties with pre-development activities underway. The weighted average lease term for the Company's top 10 tenants is 7.3 years as at December 31, 2013, excluding options in favour of tenants.

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

Year ended December 31, 2013	Total Square Feet		Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet		No. of Leases	Weighted Average Rate per Occupied Square Foot
	(thousands)	(thousands)	%	(thousands)	%	(thousands)	%			
December 31, 2012	24,969	23,873	95.6 %	172	0.7%	924	3.7%		\$ 17.51	
Tenant openings	—	543		—		(543)		254	19.77	
Tenant closures	—	(566)		—		566		(276)	(19.36)	
Closures for redevelopment	—	(121)		121		—		(76)	(20.87)	
Developments – coming on line	415	361		—		54		61	23.61	
Redevelopments – coming on line	—	103		(103)		—		24	20.56	
Demolitions	(32)	—		(32)		—		—	—	
Reclassification	(71)	(63)		21		(29)		—	—	
Total portfolio before dispositions and acquisitions	25,281	24,130	95.5 %	179	0.7%	972	3.8%		\$ 17.74	
Dispositions (at date of disposition)	(1,105)	(1,029)	93.1 %	—		(76)		(156)	(15.47)	
Acquisitions (at date of acquisition)	286	271	94.8 %	—		15		113	27.82	
December 31, 2013	24,462	23,372	95.5 %	179	0.7%	911	3.7%		\$ 17.96	
Renewals		1,419						478	\$ 20.13	
Renewals – expired		(1,419)						(478)	\$ (18.30)	
Net increase per square foot from renewals									\$ 1.83	
% Increase on renewal of expiring rents									10.0%	
% Increase in rate per square foot – openings versus all closures									1.3%	

Included in the 1,007,000 square feet of gross new leasing is 495,000 square feet related to the same property portfolio. The gross new leasing for same property portfolio will generate additional minimum rent of approximately \$10.3 million on a same property basis. The Company achieved a 10.7% increase on 896,000 square feet of renewal leases over the expiring lease rates for the same property portfolio. Net tenant closures for the same property portfolio totalled 10,000 square feet for the year.

On the same property basis, the average rate per occupied square foot increased to \$17.91 as at December 31, 2013 from the average rate per occupied square foot of the same property portfolio of \$17.70 as at December 31, 2012.

Total development and redevelopment of 518,000 square feet was completed in the year ended December 31, 2013 compared with 853,000 square feet developed in the year ended December 31, 2012. The occupied development and redevelopment space was leased at an average rental rate of \$22.93 per square foot for the year ended December 31, 2013 compared to \$23.88 per square foot during the comparative period of 2012.

Development and redevelopment coming on line in 2013 included the following:

Property Name	Building to LEED standards ⁽¹⁾	City	Province	Square Feet	Major Tenants of Developed Space
Same property with incremental redevelopment and expansion					
Eagleson Place	✓	Ottawa	ON	27,000	Goodlife Fitness, The Beer Store
Carrefour St-David	✓	Beauport	QC	22,000	Gold's Gym
Place Nelligan / Plaza St-René	✓	Gatineau	QC	20,000	Dollarama, Pharmacie Brunet
Hunt Club Marketplace	✓	Toronto	ON	20,000	Dollarama
Place Pointe-aux-Trembles		Montreal	QC	16,000	Dollarama
Gloucester City Centre		Ottawa	ON	13,000	PharmaPlus
Centre Commercial Côte St-Luc	✓	Montreal	QC	6,000	McDonalds
Credit Valley Town Plaza	✓	Mississauga	ON	6,000	TD Canada Trust
Other				7,000	RBC Royal Bank, Dollarama
Major redevelopment					
Port Place Shopping Centre	✓	Nanaimo	BC	50,000	Dollarama, TimberWest
Deer Valley Marketplace		Calgary	AB	37,000	Shoppers Drug Mart, Dollarama, Pet Valu
Mount Royal Village		Calgary	AB	33,000	Goodlife Fitness
Carrefour Soumande		Vanier	QC	30,000	Spaces with leasing underway
Chartwell Shopping Centre	✓	Toronto	ON	24,000	Tim Hortons
Victoria Park Centres		Toronto	ON	14,000	Dollarama, LCBO
Hazelton Lanes		Toronto	ON	12,000	The Toronto Clinic
Other				20,000	Various tenants
Ground-up development					
Place Viau	✓	Montreal	QC	100,000	Walmart
Carrefour du Plateau-des-Grives	✓	Gatineau	QC	26,000	CIBC, Dollarama, McDonalds
Pergola Commons	✓	Guelph	ON	20,000	The Keg Restaurant, State & Main Kitchen & Bar
Shops at King Liberty (Fuzion)		Toronto	ON	8,000	Structube
Leaside Village	✓	Toronto	ON	7,000	Various tenants
Total				518,000	
Total development brought on line				415,000	
Total other redevelopment brought on line				103,000	Leased to various tenants
				518,000	

⁽¹⁾ The Company's policy is to build to LEED standards subject to tenant acceptance and existing physical structure limitations. Refer to the "Corporate Responsibility and Sustainability" section of this MD&A.

Individual buildings within a development are generally constructed only after obtaining commitments on a substantial portion of the space. Development and redevelopment coming on line include both leased and unleased space were brought on line at completion of construction. The Company's 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 balance of the space brought on line is expected to be leased in the next 12 months.

2012 Leasing and Occupancy

For the year ended December 31, 2012, gross new leasing totalled 1,407,000 square feet including development and redevelopment spaces coming on line. This gross new leasing will generate additional minimum rent of approximately \$30.2 million (excluding sold properties). The Company achieved a 10.0% increase on 1,301,000 square feet of renewal leases over the expiring lease rates (10.0% excluding sold properties). Net tenant closures totalled 56,000 square feet for the year.

The average rate per occupied square foot excluding acquisitions and dispositions increased to \$17.40 as at December 31, 2012 from the average rate per occupied square foot of the total portfolio of \$16.81 as at December 31, 2011, as a result of the leasing and development activity in the period. Including acquisitions and dispositions, the average rate per occupied square foot increased to \$17.51.

Total portfolio occupancy as at December 31, 2012 of 95.6% compares to 96.2% at December 31, 2011.

Changes in the Company's gross leasable area and occupancy for its shopping centre portfolio are set out below:

<i>Year ended December 31, 2012</i>	Total Square Feet		Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet		No. of Leases	Weighted Average Rate per Occupied Square Foot
	(thousands)	(thousands)	%	(thousands)	%	(thousands)	%			
December 31, 2011	23,227	22,351	96.2 %	127	0.6%	749	3.2%		\$ 16.81	
Tenant openings	—	685		—		(685)		231	18.92	
Tenant closures	—	(741)		—		741		(243)	(16.04)	
Closures for redevelopment	—	(206)		190		16		(47)	(14.76)	
Developments – coming on line	731	600		—		131		167	25.24	
Redevelopments – coming on line	—	122		(106)		(16)		27	17.20	
Demolitions	(173)	—		(173)		—		—	—	
Reclassification	16	14		134		(132)		—	—	
Total portfolio before dispositions and acquisitions	23,801	22,825	95.9 %	172	0.7%	804	3.4%		\$ 17.40	
Dispositions (at date of disposition)	(1,087)	(1,054)	97.0 %	—		(33)		(191)	(14.16)	
Acquisitions (at date of acquisition)	2,255	2,102	93.2 %	—		153		741	16.94	
December 31, 2012	24,969	23,873	95.6 %	172	0.7%	924	3.7%		\$ 17.51	
Renewals		1,301						393	\$ 18.65	
Renewals – expired		(1,301)						(393)	\$ (16.95)	
Net increase per square foot from renewals									\$ 1.70	
% Increase on renewal of expiring rents									10.0%	
% Increase in rate per square foot – openings versus all closures									18.4%	

In 2012, development of 731,000 square feet was brought on line with 600,000 square feet leased at an average rate of \$25.24 per square foot.

Development and redevelopment coming on line in 2012 included the following:

Property Name	Building to LEED Standards ⁽¹⁾	City	Province	Square Feet ⁽²⁾	Major Tenants of Developed Space
Same property with incremental redevelopment and expansion					
Brooklin Towne Centre	✓	Whitby	ON	7,000	The Beer Store
Cedarbrae Mall		Toronto	ON	19,000	Shoppers Drug Mart, Scarborough Centre For Healthy Communities
Gloucester City Centre	✓	Ottawa	ON	12,000	LCBO
Shops at King Liberty	✓	Toronto	ON	21,000	RBC Royal Bank, EQ3, Pearl Vision
Thickson Place	✓	Whitby	ON	12,000	Starbucks, LCBO
Queenston Place		Hamilton	ON	5,000	Kelsey's
Carrefour du Versant	✓	Gatineau	QC	17,000	CIBC, Dollarama, Second Cup
Carrefour St-Hubert	✓	Longueuil	QC	14,000	RBC Royal Bank, Magicuts, and space with leasing underway
Carrefour Charlemagne	✓	Charlemagne	QC	8,000	Leasing underway
Place Nelligan		Gatineau	QC	5,000	Sobeys
Centre commercial Beaconsfield	✓	Beaconsfield	QC	5,000	TD Canada Trust
Centre Kirkland	✓	Kirkland	QC	7,000	SAQ, Second Cup
Westmount Shopping Centre	✓	Edmonton	AB	25,000	Rexall, Wind Mobile, Calwood Medical Clinic, Medicine Shoppe Pharmacy, Woodcroft Medical Centre
Red Deer Village	✓	Red Deer	AB	19,000	Canadian Tire
McKenzie Towne Centre	✓	Calgary	AB	13,000	McKenzie Ortho, Servus Credit Union, various other tenants
Other				31,000	
Major redevelopment					
Chartwell Shopping Centre	✓	Toronto	ON	85,000	Bestco Food, CIBC, Dollarama, various other tenants
Appleby Village	✓	Burlington	ON	49,000	Harvey's, Womens Fitness Clubs of Canada, Great Clips, various other tenants and space with leasing underway
5051 – 5061 Yonge Street		Toronto	ON	34,000	Jack Astor's Bar and Grill, Michael's
146 Lakeshore Road West	✓	Oakville	ON	16,000	Starbucks, Pizza Hut, Royal Cleaners, Bark n Fitz
Deer Valley Marketplace	✓	Calgary	AB	10,000	CIBC, Deer Valley Health Foods, Medical Clinic and space with leasing underway
Port Place Shopping Centre		Nanaimo	BC	6,000	Starbucks and space with leasing underway
Carrefour Soumande	✓	Québec City	QC	42,000	Metro Richelieu
Place Pointe-aux-Trembles		Montreal	QC	7,000	
Other				4,000	

Development and redevelopment coming on line in 2012, continued:

Property Name	Building to LEED Standards ⁽¹⁾	City	Province	Square Feet ⁽²⁾	Major Tenants of Developed Space
Ground-up development					
Leaside Village	✓	Toronto	ON	104,000	CIBC, Longo's, Bulk Barn, Linen Chest, Pet Valu, Tim Hortons, The Beer Store, 5 Guys Burgers, various other tenants
Clairfield Commons (Pergola Commons)	✓	Guelph	ON	113,000	BMO, Cineplex, GoodLife Fitness, Dollarama, various other tenants
Rutherford Market Place	✓	Toronto	ON	5,000	Booster Juice, My Sushi and space with leasing underway
Carrefour St-David	✓	Québec City	QC	15,000	The Co-Operators, Optometrist and space with leasing underway
Carrefour du Plateau-des-Grives	✓	Gatineau	QC	10,000	National Bank
Acquisitions – 2012					
Les Jardins Millen	✓	Montreal	QC	50,000	IGA and other leasing underway
Shops at New West		Vancouver	BC	38,000	Various tenants and space with leasing underway
Acquisitions – 2011					
9630 Macleod Trail		Calgary	AB	13,000	Fit 4 Less
Other				1,000	
Assets Held For Sale				31,000	Various tenants
Total				853,000	
Total development brought on line				731,000	
Total other redevelopment brought on line				122,000	
				853,000	

⁽¹⁾ The Company's policy is to build to LEED standards subject to tenant acceptance and existing physical structure limitations. Refer to the "Corporate Responsibility and Sustainability" section of this MD&A.

⁽²⁾ Includes new space in development projects.

Lease Maturities

The Company's lease maturity profile for its shopping centre portfolio as at December 31, 2013 is as follows:

Maturity Date ⁽¹⁾	Number of Stores	Occupied Square Feet (thousands)	Percent of Total Square Feet	Annualized Minimum Rent at Expiration (\$ 000s)	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month tenants ⁽²⁾	214	387	1.6%	\$ 6,513	1.5%	\$ 16.82
2014	612	2,014	8.2%	32,887	7.4%	16.33
2015	629	2,558	10.5%	44,966	10.2%	17.58
2016	535	2,145	8.8%	35,727	8.1%	16.66
2017	578	2,980	12.2%	53,541	12.1%	17.97
2018	544	2,769	11.3%	49,880	11.3%	18.01
2019	264	1,926	7.9%	39,145	8.9%	20.33
2020	172	947	3.8%	19,545	4.4%	20.64
2021	200	1,281	5.2%	28,113	6.4%	21.94
2022	242	1,610	6.6%	38,688	8.7%	24.03
2023	168	1,635	6.7%	30,618	6.9%	18.73
2024	67	681	2.7%	13,691	3.0%	20.10
Thereafter	105	2,439	10.0%	49,201	11.1%	20.17
Total/Average	4,330	23,372	95.5%	\$ 442,515	100.0%	\$ 18.93

⁽¹⁾ Excluding any contractual renewal options in favour of the tenants.

⁽²⁾ Contains tenants on over hold including renewals and extensions under negotiation, month-to-month tenants and tenants in space at properties with future redevelopment.

Included in 2014 lease maturities of 2,014,000 square feet is 1,182,000 square feet related to the same property portfolio, which represents 58.7% of the lease maturities for the total shopping centre portfolio. The expiring leases on a same property basis generate an annual minimum rent of \$22.3 million, representing 67.8% of the annual minimum rent from the expiring leases for the total shopping centre portfolio.

The Company's expected future income through maturity from its existing in-place leases for its shopping centre portfolio as at December 31, 2013 includes:

<i>(in thousands of dollars)</i> Revenue Recognition Period	Minimum Rent ⁽¹⁾	Estimated Income from Operating and Tax Recoveries ⁽²⁾
Q1, 2014	\$ 101,569	\$ 54,051
Q2, 2014	100,730	53,618
Q3, 2014	99,164	52,780
Q4, 2014	96,666	51,477
Total	\$ 398,129	\$ 211,926
2015	349,930	186,670
2016	316,483	168,789
2017	277,832	148,271
2018	233,403	124,754
Thereafter	930,499	498,485
Total	\$ 2,506,276	\$ 1,338,895

⁽¹⁾ Assumes non-exercise of optional periods by tenants.

⁽²⁾ Income from operating cost and realty tax recoveries is estimated by applying the relative percentage to current year base rent to expected future minimum rent for each period.

Top Forty Tenants

As at December 31, 2013, 54.4% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2012 – 54.4%). Of those rents, 81.3% 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.

Tenant	Number of Stores	Square Feet (thousands)	Percent of Total Gross Leasable Area	Percent of Total Annualized Minimum Rent	DBRS Credit Rating	S&P Credit Rating	Moody's Credit Rating
1 Sobeys ⁽¹⁾	59	2,049	8.4%	7.1%	BBB (low)	BBB-	
2 Shoppers Drug Mart	68	993	4.1%	6.0%	A (low)	BBB+	
3 Loblaws	29	1,457	6.0%	4.2%	BBB	BBB	
4 Metro	33	1,200	4.9%	3.5%	BBB	BBB	
5 Walmart	15	1,482	6.0%	3.1%	AA	AA	Aa2
6 Canadian Tire	25	830	3.4%	2.8%	BBB (high)	BBB+	
7 TD Canada Trust	45	244	1.0%	2.0%	AA	AA-	Aa1
8 RBC Royal Bank	46	258	1.0%	2.0%	AA	AA-	Aa3
9 CIBC	36	202	0.8%	1.6%	AA	A+	Aa3
10 Dollarama	40	419	1.7%	1.5%	BBB		
Sub-total	396	9,134	37.3%	33.8%			
11 Rona	4	421	1.7%	1.3%	BB (high)	BB+	
12 Goodlife Fitness	16	397	1.6%	1.3%			
13 LCBO	21	217	0.9%	1.3%	AA (low)	AA-	Aa2
14 Rexall	21	180	0.8%	1.2%			
15 Staples	12	298	1.2%	1.0%		BBB	Baa2
16 Bank of Montreal	27	124	0.5%	1.0%	AA	A+	Aa3
17 London Drugs	9	231	0.9%	1.0%			
18 Scotiabank	23	127	0.5%	0.9%	AA	A+	Aa2
19 Tim Hortons	47	126	0.5%	0.8%	BBB		
20 Alberta Health Services	3	157	0.6%	0.7%	AAA	AAA	Aaa
21 Longo's	3	126	0.5%	0.7%			
22 Starbucks	43	70	0.3%	0.7%		A-	Baa2
23 Save-On-Foods	5	222	0.9%	0.6%			
24 Jean Coutu	12	155	0.6%	0.6%			
25 Subway	68	81	0.3%	0.6%			
26 Hudson's Bay Company	4	253	1.0%	0.6%		B+	B1
27 Toys "R" Us	4	156	0.6%	0.5%		B-	B2
28 Whole Foods Market	2	90	0.5%	0.5%		BBB-	
29 Michaels	4	87	0.4%	0.5%		B	B3
30 Cara	20	83	0.4%	0.5%	B	BB-	
31 SAQ	21	94	0.4%	0.5%	A (high)	A+	Aa2
32 Best Buy	5	140	0.6%	0.5%		BB	Baa2
33 Target	2	246	1.0%	0.5%		A+	A2
34 Yum! Brands	29	58	0.2%	0.5%		BBB	Baa3
35 McDonalds	21	84	0.3%	0.5%		A	A2
36 Reitmans	27	134	0.5%	0.4%			
37 The Beer Store	11	66	0.3%	0.4%	AA (low)	AA-	Aa2
38 Winners	5	164	0.8%	0.4%		A+	A3
39 The Home Depot	2	236	1.0%	0.4%	A	A	A2
40 Pet Value	20	52	0.2%	0.2%			
Total: Top 40 Tenants	887	14,009	57.3%	54.4%			

⁽¹⁾ Sobeys includes space occupied by Safeway Canada, resulting from the merger of the companies.

Loans, Mortgages and Other Real Estate Assets

<i>(thousands of dollars)</i>	December 31, 2013		December 31, 2012	
Loans and mortgages receivable (a)	\$	68,150	\$	20,553
Available-for-sale ("AFS") investments in equity securities		3,631		—
Total non-current loans, mortgages and other real estate assets	\$	71,781	\$	20,553
Fair value through profit or loss ("FVTPL") investments in equity securities (b)	\$	27,764	\$	16,989
AFS investments in equity securities		455		900
Loans and mortgages receivable (c)		24,457		28,702
Loans receivable from sales of residential inventory (d)		24,773		—
Total current loans, mortgages and other real estate assets	\$	77,449	\$	46,591

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties and bear interest at a weighted average rate as at December 31, 2013 of 6.3% per annum (December 31, 2012 – 8.8% per annum). The loans and mortgages receivable mature between 2014 and 2025.

(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 FVTPL securities are recorded in other gains (losses) and (expenses).

(c) The Company has loans and mortgages receivable secured by interests in investment properties or shares of entities owning investment properties and bear interest at a weighted average rate of 9.5% per annum (December 31, 2012 – 10.6% per annum). The loans and mortgages receivable mature during 2014.

(d) Loans receivable from sales of residential inventory bear interest at approximately 3% per annum.

Scheduled principal receipts of loans and mortgages receivable as at December 31, 2013 are as follows:

<i>(thousands of dollars, except other data)</i>	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate
2014	\$ 41	\$ 24,182	\$ 24,223	9.53%
2015	43	7,730	7,773	10.35%
2016	—	8,195	8,195	7.96%
2017	—	3,522	3,522	5.29%
2019 to 2025	—	47,857	47,857	5.46%
	\$ 84	\$ 91,486	91,570	7.17%
Unamortized deferred financing fees, premiums and discounts, net and interest receivable			1,037	
			\$ 92,607	
Current			\$ 24,457	6.33%
Non-current			68,150	9.54%
			\$ 92,607	7.17%

RESULTS OF OPERATIONS

Net Income

	Year ended December 31	
<i>(thousands of dollars, except share and per share amounts)</i>	2013	2012
Net income attributable to common shareholders	\$ 214,863	\$ 392,923
Net income per share attributable to common shareholders (diluted)	\$ 1.01	\$ 1.98
Weighted average number of common shares – diluted (in thousands)	229,948	206,573

Net income attributable to common shareholders for the year ended December 31, 2013 was \$214.9 million or \$1.01 per share (diluted) compared to \$392.9 million or \$1.98 per share (diluted) for the year ended December 31, 2012.

For the year ended December 31, 2013, the decrease in net income as compared to prior year is primarily due to a \$230.9 million difference in fair value gain on investment properties and the related reduction in deferred income taxes, offset by an increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line and same property NOI growth. On a per share basis, the decrease is also partially due to the increase in the weighted average number of common shares outstanding resulting from various equity financing activities and growth of the Company.

Reconciliation of Consolidated Statements of Income, as presented, to the Company's Proportionate Interest

The following table provides the reconciliation of the Company's consolidated statements of income, as presented in the consolidated financial statements, to proportionate interest.

	Year ended December 31					
<i>(thousands of dollars)</i>	2013			2012		
	Consolidated Statements of Income (Equity method)	Adjustment for equity method to proportionate interest	Proportionate interest	Consolidated Statements of Income (Equity method)	Adjustment for equity method to proportionate interest	Proportionate interest
Net operating income						
Property rental revenue	\$ 631,605	\$ 4,324	\$ 635,929	\$ 579,259	\$ 4,148	\$ 583,407
Property operating costs	233,595	1,384	234,979	210,126	1,434	211,560
	398,010	2,940	400,950	369,133	2,714	371,847
Other income and expenses						
Interest and other income	10,501	—	10,501	8,706	58	8,764
Interest expense	(164,909)	(537)	(165,446)	(160,916)	(559)	(161,475)
Corporate expenses	(25,211)	—	(25,211)	(23,417)	—	(23,417)
Abandoned transaction costs	(2,231)	—	(2,231)	(2,095)	—	(2,095)
Amortization expense	(3,873)	—	(3,873)	(4,102)	—	(4,102)
Share of profit from joint venture	2,334	(2,334)	—	7,287	(7,287)	—
Other gains (losses) and (expenses)	(4,280)	—	(4,280)	(6,080)	—	(6,080)
Increase in value of investment properties, net	56,086	(69)	56,017	286,950	5,074	292,024
	(131,583)	(2,940)	(134,523)	106,333	(2,714)	103,619
Income before income taxes	266,427	—	266,427	475,466	—	475,466
Deferred income taxes	51,418	—	51,418	82,158	—	82,158
Net income	\$ 215,009	\$ —	\$ 215,009	\$ 393,308	\$ —	\$ 393,308

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: (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"), as issued in a White Paper on FFO for IFRS. It includes certain additional adjustments to FFO under IFRS from the previous definition of FFO under GAAP. The use of FFO 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, as well as adjustments to non-controlling interest to reflect FFO attributable to the Company, and provides a perspective on the financial performance that is not immediately apparent from net income determined in accordance with IFRS. The weighted average number of diluted shares outstanding for FFO is calculated assuming conversion of only those convertible debentures outstanding that would have a dilutive effect upon conversion, at the holders' contractual conversion price.

FFO increased to \$215.5 million or \$1.03 per share (diluted) from \$189.1 million or \$1.00 per share (diluted) in the prior year. The increase in FFO is primarily due to the increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line, same property NOI growth and increased interest and other income from other real estate investments. The effects of the increase in NOI and interest and other income were partially offset by increases in interest expense and corporate expenses. On a per share basis, the increases in FFO were offset by an increase in the weighted average number of common shares outstanding resulting from various equity financing activities.

The Company's net income with proportionate interest is reconciled to funds from operations below:

(thousands of dollars)	Year ended December 31	
	2013	2012
Net income for the year	\$ 215,009	\$ 393,308
Add (deduct):		
Increase in value of investment properties, net	(56,017)	(292,024)
Investment properties – selling costs	5,295	4,084
Change in fair value of interest rate hedges ⁽¹⁾	—	(1,469)
Transaction costs	—	2,895
Deferred income taxes	51,418	82,158
Non-controlling interest	(162)	129
FFO	\$ 215,543	\$ 189,081

⁽¹⁾ The gains (losses) on hedges represents the change in fair value for those derivatives to which the Company does not apply hedge accounting.

The components of FFO with proportionate interest are as follows:

<i>(thousands of dollars, except share and per share amounts and percentages)</i>	% increase	Year ended December 31	
		2013	2012 <i>(Restated)</i>
Net operating income		\$ 400,950	\$ 371,847
Interest expense		(165,446)	(161,475)
Corporate expenses		(25,211)	(23,417)
Abandoned transaction costs		(2,231)	(2,095)
Amortization expense (corporate assets and credit facility costs)		(3,873)	(4,102)
Interest and other income		10,501	8,764
Non-controlling interest		(162)	129
FFO excluding other gains (losses) and (expenses)	13.1%	214,528	189,651
Other gains (losses) and (expenses) ⁽¹⁾		1,015	(570)
FFO	14.0%	\$ 215,543	\$ 189,081
FFO per diluted share	3.0%	\$ 1.03	\$ 1.00
FFO per diluted share excluding other gains (losses) and (expenses)	3.0%	\$ 1.03	\$ 1.00
Weighted average number of common shares – diluted – FFO (in thousands)	10.0%	208,877	189,876

⁽¹⁾ Refer to the “Results of Operations - Other Gains (Losses) and (Expenses)” section in the following pages for details.

Adjusted Funds from Operations

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, same property revenue sustaining capital expenditures and leasing costs for maintaining shopping centre infrastructures, certain other gains or losses, and adjustments to non-controlling interest to reflect AFFO attributable to the Company. Residential inventory pre-sale costs are recognized in AFFO when the Company recognizes revenue from the sale of residential units. The weighted average number of diluted shares outstanding for AFFO is adjusted to assume conversion of the outstanding convertible debentures, calculated using the holders' contractual conversion price.

AFFO was \$225.2 million or \$1.00 per share (diluted) for the year ended December 31, 2013 compared to \$195.9 million or \$0.95 per share as restated (diluted) in the prior year. AFFO included \$6.7 million of other net gains primarily arising from the net gain on sale of residential inventory and the gain on settlement of litigation, compared to \$3.5 million of other net gains in the prior year.

<i>(thousands of dollars, except share and per share amounts and percentages)</i>	% increase	Year ended December 31	
		2013	2012 <i>(Restated)</i>
FFO		\$ 215,543	\$ 189,081
Add (deduct):			
Interest expense payable in shares		23,292	22,795
Rental revenue recorded on a straight-line basis		(10,452)	(13,117)
Non-cash compensation expense		2,999	2,897
Same property revenue sustaining capital expenditures and leasing costs ⁽¹⁾		(14,090)	(14,130)
Change in cumulative unrealized losses (gains) on marketable securities		1,988	(2,677)
Loss on settlement of debt and purchase of convertible debentures		4,092	6,549
Hedge accounting (gains) losses		(301)	10
Pre-selling costs of residential inventory units		(127)	187
Costs not capitalized during development period ⁽²⁾		2,549	4,759
Other adjustments		(283)	(426)
AFFO	14.9%	225,210	195,928
Add/deduct: Other (gains) losses and expenses ⁽³⁾		(6,667)	(3,479)
AFFO excluding other (gains) losses and expenses	13.6%	\$ 218,543	\$ 192,449
AFFO per diluted share	5.3%	\$ 1.00	\$ 0.95
AFFO per diluted share excluding other (gains) losses and expenses	4.3%	\$ 0.97	\$ 0.93
Weighted average number of common shares – diluted – AFFO (in thousands)	8.8%	224,767	206,573

⁽¹⁾ Estimated at \$0.84 per square foot per annum (2012 – \$0.82) on average gross leasable area of stable properties (based on an estimated three-year weighted average).

⁽²⁾ The Company has added back costs not capitalized during the development period for accounting purposes that, in Management's view forms part of the cost of its development projects.

⁽³⁾ Refer to the "Results of Operations - Other Gains (Losses) and (Expenses)" section in the following pages for details.

In the fourth quarter of 2013, the definition of revenue sustaining capital expenditure has been further refined by property category in order to be consistent with how the Company evaluates its business operations. Previously, revenue sustaining capital expenditures were deducted from AFFO in all properties regardless of property category. The refinement excludes from the calculation of AFFO, capital expenditures incurred in conjunction with a ground-up development, major redevelopment, acquisition and disposition activities which are, by their nature, value enhancing activities. Refer to "Business and Operations Review - Capital Expenditures on Investment Properties" section of this MD&A for further discussion.

The impact of this change to AFFO and revenue sustaining capital expenditures for the year ended December 31, 2013 and December 31, 2012 are as follows:

<i>(thousands of dollars, except share and per share amounts)</i>	Three months ended				Year ended
	March 31	June 30	September 30	December 31	December 31
	2013	2013	2013	2013	2013
Current Basis					
AFFO, excluding revenue sustaining capital expenditures, as stated	\$ 57,775	\$ 61,221	\$ 59,591	\$ 60,713	\$ 239,300
Revenue sustaining capital expenditures, restated	(3,523)	(3,522)	(3,522)	(3,523)	(14,090)
AFFO, restated	\$ 54,252	\$ 57,699	\$ 56,069	\$ 57,190	\$ 225,210
Weighted average number of common shares - diluted – AFFO (in thousands)	223,686	225,785	225,539	226,183	224,767
AFFO per diluted share, restated	\$ 0.24	\$ 0.26	\$ 0.25	\$ 0.25	\$ 1.00
Previous Basis					
AFFO, excluding revenue sustaining capital expenditures, as stated	\$ 57,775	\$ 61,221	\$ 59,591	\$ 60,713	\$ 239,300
Revenue sustaining capital expenditures, as stated	(4,875)	(4,793)	(4,723)	(5,240)	(19,631)
AFFO, as stated	\$ 52,900	\$ 56,428	\$ 54,868	\$ 55,473	\$ 219,669
Weighted average number of common shares - diluted – AFFO (in thousands)	223,686	225,785	225,539	226,183	224,767
AFFO per diluted share, as stated	\$ 0.24	\$ 0.25	\$ 0.24	\$ 0.25	\$ 0.98
Difference in AFFO per diluted share	\$ —	\$ 0.01	\$ 0.01	\$ —	\$ 0.02
2012					
<i>(thousands of dollars, except share and per share amounts)</i>	Three months ended				Year ended
	March 31	June 30	September 30	December 31	December 31
	2012	2012	2012	2012	2012
Current Basis					
AFFO, excluding revenue sustaining capital expenditures, as stated	\$ 48,458	\$ 52,201	\$ 53,492	\$ 55,907	\$ 210,058
Revenue sustaining capital expenditures, restated	(3,533)	(3,532)	(3,532)	(3,533)	(14,130)
AFFO, restated	\$ 44,925	\$ 48,669	\$ 49,960	\$ 52,374	\$ 195,928
Weighted average number of common shares - diluted – AFFO (in thousands)	196,763	200,311	208,131	222,632	206,573
AFFO per diluted share, restated	\$ 0.23	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.95
Previous Basis					
AFFO, excluding revenue sustaining capital expenditures, as stated	\$ 48,458	\$ 52,201	\$ 53,492	\$ 55,907	\$ 210,058
Revenue sustaining capital expenditures, as stated	(4,119)	(4,171)	(4,322)	(5,028)	(17,640)
AFFO, as stated	\$ 44,339	\$ 48,030	\$ 49,170	\$ 50,879	\$ 192,418
Weighted average number of common shares - diluted – AFFO (in thousands)	196,763	200,311	208,131	222,632	206,573
AFFO per diluted share, as stated	\$ 0.22	\$ 0.24	\$ 0.24	\$ 0.23	\$ 0.93
Difference in AFFO per diluted share	\$ 0.01	\$ —	\$ —	\$ 0.01	\$ 0.02

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

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
		<i>(Restated)</i>
Cash provided by operating activities	\$ 212,619	\$ 193,006
Share of profit of joint venture	2,435	2,263
Distribution from joint venture	(2,062)	(2,259)
Realized gains on sale of marketable securities	2,564	3,538
Deferred leasing costs	5,095	5,108
Net change in non-cash operating items	287	(10,009)
Expenditures on residential development inventory	14,984	14,351
Amortization expense	(3,873)	(4,102)
Transaction costs	—	2,895
Non-cash interest expense and change in accrued interest	(3,852)	(4,161)
Settlement of restricted share units	1,879	2,396
Convertible debenture interest paid in common shares	(19,054)	(20,533)
Convertible debenture interest payable in common shares	23,292	22,795
Costs not capitalized during development period	2,549	4,759
Pre-selling costs of residential inventory	(127)	187
Gain on sale of residential inventory	2,966	—
Same property revenue sustaining capital expenditures and leasing costs	(14,090)	(14,130)
Non-controlling interest	(162)	129
Other adjustments	(240)	(305)
AFFO	\$ 225,210	\$ 195,928

Net Operating Income (“NOI”)

NOI is defined as property rental revenue less property operating costs. In Management’s opinion, NOI is common and useful in analyzing the operating performance of the Company’s shopping centre portfolio, and it is a primary method for analyzing real estate in Canada. 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.

NOI increased to approximately \$401.0 million for the year ended December 31, 2013 from \$371.8 million for the comparative period of the prior year.

On a comparative period basis, the shopping centre portfolio size decreased by 0.5 million square feet due to net property sales, and overall occupancy decreased by a 0.1%. The decrease in occupancy primarily arises as a result of the Company's development and redevelopment initiatives, as well as the effects of sales of properties with higher occupancies. On a same property – stable basis, occupancy remained unchanged at 97.6% as at December 31, 2013 and December 31, 2012. Even with the decrease in the portfolio size and occupancy, the increase in NOI resulted from growth in base rent and recoveries from tenants due to increases in rental rates from step-ups and lease renewals, as well as acquisitions and developments coming on line, where average rental rates and recovery terms were higher than the rental rates and recovery terms of disposed properties and closures of spaces for redevelopment.

The Company's proportionate interest in net operating income for the shopping centre portfolio is presented below:

<i>(thousands of dollars, except other data)</i>	Year ended December 31	
	2013	2012
Property rental revenue		
Base rent ⁽¹⁾	\$ 394,069	\$ 364,188
Operating cost recoveries	94,015	81,712
Realty tax recoveries	115,800	105,173
Straight-line rent	10,452	13,117
Lease surrender fees	924	1,617
Percentage rent	3,533	2,823
Prior year operating cost and tax recovery adjustments	1,464	(94)
Temporary tenants, storage, parking and other	15,672	14,871
Total property rental revenue	635,929	583,407
Property operating costs		
Recoverable operating expenses	109,358	95,871
Recoverable realty tax expenses	126,541	115,399
Prior year operating cost and tax expense adjustments	(819)	(185)
Other operating costs and adjustments	(101)	475
Total property operating costs	234,979	211,560
NOI	\$ 400,950	\$ 371,847
NOI margin	63.0%	63.7%
Operating cost recovery percentage	86.0%	85.2%
Tax recovery percentage	91.5%	91.1%

⁽¹⁾ Base rent includes annual minimum rents from gross and semi-gross leases.

The change in the shopping centre portfolio NOI margin is primarily driven by occupancy, operating costs and tax recovery margins and base rent growth. The overall shopping centre portfolio NOI margin has decreased year over year due to development and redevelopment activities, where margins will vary depending on the stage of activity, and due to acquisitions, where margins are impacted by the condition of acquired properties. Same property – stable NOI margin remains unchanged from the prior year at 65.8%. The stable and ground-up development properties typically have the highest NOI margins.

The operating cost recovery margin for same property – stable has increased to 92.0% for the year ended December 31, 2013 (December 31, 2012 – 91.4%) primarily due to fewer vacant units throughout the year. Property tax recovery margin has decreased marginally to 94.6% (December 31, 2012 – 94.7%) also due to increases in property tax assessments. The improvement in the overall shopping centre portfolio operating cost and tax recovery margins resulted primarily from the completion and lease up of several development and redevelopment projects.

The following table summarizes the Company's NOI margin, operating cost and tax recoveries margin, and occupancy by property category:

	NOI Margin		Operating Cost and Tax Recoveries Margin		% Occupied	
	Year ended December 31		Year ended December 31		As at December 31	
	2013	2012	2013	2012	2013	2012
Same property – stable	65.8%	65.8%	93.5%	93.2%	97.6%	97.6%
Same property with incremental redevelopment and expansion	62.1%	62.9%	90.8%	89.0%	95.6%	95.1%
Total same property	64.6%	64.9%	92.6%	91.8%	97.0%	96.8%
Major redevelopment	57.9%	59.1%	78.7%	80.7%	91.2%	92.9%
Ground-up development	66.7%	69.0%	94.6%	91.5%	98.2%	95.8%
Acquisitions – 2013 and 2012	57.9%	57.9%	83.3%	78.3%	91.2%	91.1%
Investment properties classified as held for sale	62.8%	59.8%	85.9%	82.1%	91.3%	94.5%
Dispositions and other	64.5%	63.3%	75.9%	78.8%	—	93.5%
	63.0%	63.7%	88.9%	88.5%	95.5%	95.6%

Same property – stable NOI increased by 2.7% for the year ended December 31, 2013 compared to the prior year, primarily attributed to increases in rental rates due to step-ups, lease renewals, and tenant openings with higher rental rates than the rental rates on tenant closures, while maintaining an occupancy rate of 97.6%. Additionally operating cost and realty tax recoveries margin on a combined basis for same property – stable, increased from 93.2% to 93.5%, and certain bad debts were recovered which further contributed to the growth. Offsetting these increases were lower lease termination fees year over year.

The following table summarizes the Company's proportionate interest in NOI by property categorization:

	% increase	Year ended December 31	
		2013	2012
<i>(thousands of dollars, except for percentages)</i>			
Same property – stable NOI	2.7%	\$ 194,895	\$ 189,702
Same property with incremental redevelopment and expansion NOI		82,956	78,176
Total same property	3.7%	277,851	267,878
Major redevelopment		46,059	43,525
Ground-up development		10,320	6,001
Acquisitions – 2013		3,999	—
Acquisitions – 2012		36,528	14,025
Investment properties classified as held for sale		8,242	6,546
Dispositions – 2013		6,458	13,204
Dispositions – 2012		—	7,206
Rental revenue recognized on a straight-line basis		10,452	13,117
Development land		1,041	345
NOI		\$ 400,950	\$ 371,847

For the year ended December 31, 2013, each region experienced growth in base rent and recoveries from tenants resulting from an increase in rental rates due to step-ups and lease renewals, in addition to net acquisitions and developments coming on line, with average rental rates and recovery terms in excess of the rental rates and recovery terms of disposed properties and closures of spaces for redevelopment.

The shopping centre portfolio NOI by segment at the Company's proportionate interest is as follows:

Year ended December 31, 2013						
<i>(thousands of dollars)</i>	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
Property rental revenue	\$ 272,781	\$ 164,922	\$ 198,125	\$ 635,828	\$ 101	\$ 635,929
Property operating costs	104,094	66,734	65,954	236,782	(1,803)	234,979
Net operating income	\$ 168,687	\$ 98,188	\$ 132,171	\$ 399,046	\$ 1,904	\$ 400,950

Year ended December 31, 2012						
<i>(thousands of dollars)</i>	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
Property rental revenue	\$ 247,720	\$ 150,004	\$ 185,319	\$ 583,043	\$ 364	\$ 583,407
Property operating costs	93,923	59,037	60,273	213,233	(1,673)	211,560
Net operating income	\$ 153,797	\$ 90,967	\$ 125,046	\$ 369,810	\$ 2,037	\$ 371,847

⁽¹⁾ Other items are principally operating costs and adjustments that are not attributable to a region.

Interest and Other Income

The Company's interest and other income is as follows:

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
Interest, dividend and distribution income from marketable securities and cash investments	\$ 3,695	\$ 2,714
Interest income from mortgages and loans receivable	5,911	3,898
Fees and other income	895	244
Interest income from non-revolving term loan receivable from Gazit America Inc.	—	1,908
	\$ 10,501	\$ 8,764

The increase in interest and other income is consistent with an increase in mortgages and loans receivable and marketable securities.

Fee income includes approximately \$0.3 million of fees received in connection with the second quarter Retrocom disposition transaction (as discussed in the "Business and Operations Review - 2013 Dispositions" section of this MD&A), management fees earned from partners and other items.

Interest Expense

The Company's proportionate interest in interest expense is as follows:

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
Mortgages and credit facilities	\$ 75,769	\$ 87,222
Senior unsecured debentures	88,913	75,401
Convertible debentures (cashless)		
Coupon interest (payable in shares)	19,721	19,450
Accretion of discounts on bifurcation for accounting purposes	1,517	1,496
Amortization of deferred issue costs	2,054	1,849
	23,292	22,795
Interest capitalized to investment properties and residential inventory under development	(22,528)	(23,943)
Total interest expense	\$ 165,446	\$ 161,475

Mortgage and credit facilities interest expense has decreased due to net repayments of mortgages in the year and to the decrease in the weighted average borrowing rate from 5.31% per annum as at December 31, 2012 to 5.21% per annum as at December 31, 2013.

The increase in interest expense for the senior unsecured debentures is primarily due to the issuances of \$475 million principal amount of senior unsecured debentures with a weighted average coupon rate of 4.31% (weighted average effective rate of 4.44%) in 2012 and the issuances of \$450 million principal amount senior unsecured debentures with a weighted average coupon rate of 3.97% (weighted average effective rate of 4.12%) during 2013, partially offset by the repayment of \$243 million of principal amount with a weighted average coupon rate of 5.24% (weighted average effective rate of 5.42%) during the year ended December 31, 2012, and repayment of \$54 million principal amount with a weighted average coupon rate of 5.36% (weighted average effective rate 5.52%) during the year ended December 31, 2013, as described in the "Capital Structure and Liquidity" section of this MD&A.

The increase in convertible debentures interest expense is a result of net issuances in 2012 of \$123 million and 2013 of \$55 million, partially offset by the decrease in the weighted average effective interest rate from 6.53% per annum as at December 31, 2012 to 6.35% per annum as at December 31, 2013 and repurchases in the NCIB of \$3.0 million and \$3.2 million in 2012 and 2013, respectively (See the "Capital Structure and Liquidity" section of this MD&A).

During the year ended December 31, 2013, certain development and redevelopment projects were completed resulting in lower capitalized interest. As development and redevelopment projects are completed, they no longer qualify for interest capitalization. Although the Company has a number of projects in the pre-development stage, during which capitalization comprise primarily corporate expenses and other soft costs associated with planning activities, the aggregate invested cost of properties in the active development or redevelopment stage which is subject to interest capitalization has decreased. As a result, the Company capitalized less interest relative to the aggregate invested cost of properties in ongoing development and redevelopment projects.

Corporate Expenses

<i>(thousands of dollars, except for percentages)</i>	Year ended December 31	
	2013	2012
Salaries, wages and benefits	\$ 23,389	\$ 22,901
Non-cash compensation	2,802	2,897
Other corporate costs	10,487	9,298
	36,678	35,096
Amounts capitalized to investment properties under development, residential inventory and deferred leasing costs	(11,467)	(11,679)
	\$ 25,211	\$ 23,417
Corporate expenses, excluding non-cash compensation		
As a percentage of rental revenue	3.5%	3.6%
As a percentage of total assets	0.30%	0.29%

The overall level of net corporate expenses has increased by 7.7% for the year ended December 31, 2013, as compared to the prior year. The increase is primarily as a result of increases in the number of team members and costs related to other corporate initiatives during the year, including an enhanced health and safety program, training and compensation programs and ongoing investments in processes and systems.

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 and residential inventory, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to investment properties. During each of the years ended December 31, 2013 and 2012, respectively, approximately 33.8% and 36.3% of compensation-related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects). Amounts capitalized are based on specific leasing activities and development and pre-development projects underway. During the current year, certain development and redevelopment projects were completed resulting in lower capitalized corporate expenses. However, the Company has a number of projects in the pre-development stage for which corporate expenses are being capitalized. The timing of current year completion of development and redevelopment projects and the Company's current level of pre-development activity is commensurate with the decrease in the level of corporate expenses capitalized compared to the prior year.

Other Gains (Losses) and (Expenses)

	Year ended December 31					
	2013			2012		
<i>(thousands of dollars)</i>	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	\$ 2,564	\$ 2,564	\$ 2,564	\$ 3,538	\$ 3,538	\$ 3,538
Change in cumulative unrealized (losses) gains on marketable securities classified as FVTPL	(1,988)	(1,988)	—	2,677	2,677	—
Losses on settlement of debt	(4,092)	(4,092)	—	(6,549)	(6,549)	—
Unrealized gains (losses) on hedges	301	301	—	1,459	(10)	—
Gain on settlement of litigation	1,376	1,376	1,376	—	—	—
Gain (loss) on foreign currency exchange	43	43	43	(59)	(59)	(59)
Transaction costs	—	—	—	(2,895)	—	—
Pre-selling costs of residential inventory	(155)	(155)	(282)	(167)	(167)	—
Net gain on sale of residential inventory	2,966	2,966	2,966	—	—	—
Investment properties – selling costs	(5,295)	—	—	(4,084)	—	—
	\$ (4,280)	\$ 1,015	\$ 6,667	\$ (6,080)	\$ (570)	\$ 3,479

For the year ended December 31, 2013, the losses on settlement of debt primarily relate to the \$1.4 million loss in connection with the redemption of the \$53.9 million principal amount outstanding of the Company's 5.36% Series E senior unsecured debentures (see the "Capital Structure and Liquidity" section of this MD&A), as well as pre-payment penalties related to the early repayment of \$173 million of mortgages.

The gains on hedges represent the change in fair value for those derivatives to which the Company does not apply hedge accounting, as well as the ineffectiveness of those hedges to which the Company applies hedge accounting.

The gain on settlement of litigation during 2013 results from the resolution of property-related claims.

For the year ended December 31, 2013, the net gain on sale of residential inventory relates to the residential units for which the owners have taken possession and occupancy at the Company's Fuzion condominium project (as discussed in the "Business and Operations Review - Residential Development Inventory" section of this MD&A).

Investment properties - selling costs were incurred on dispositions of properties.

For the year ended December 31, 2012, transaction costs represent those incurred in connection with the First Medical acquisition (see the "Related Party Transactions" section of this MD&A for further discussion).

Income Taxes

	Year ended December 31	
<i>(thousands of dollars)</i>	2013	2012
Deferred income taxes	\$ 51,418	\$ 82,158

Deferred income taxes decreased compared to the prior year primarily due to the difference in the fair value gain on investment properties and the change in the income tax rate by the Province of Ontario on its general corporate tax rates in 2012, which was partially offset by an increase in the income tax rate by the Province of British Columbia in 2013.

CAPITAL STRUCTURE AND LIQUIDITY

Capital Employed

The ratios below include measures not specifically defined in IFRS. They are calculations required pursuant to debt covenants and for this reason are meaningful measures.

<i>(thousands of dollars, except for other data)</i>	December 31, 2013	December 31, 2012
Enterprise value		
Common shares outstanding (in thousands)	208,356	206,546
Common share purchase warrants (in thousands)	—	5,625
Mortgages and credit facilities (principal amount)	\$ 1,350,307	\$ 1,582,968
Mortgage on equity accounted joint venture (principal amount at the Company's interest)	10,859	11,280
Senior unsecured debentures (principal amount)	1,875,000	1,478,943
Convertible debentures (principal amount)	392,917	338,592
Equity capitalization		
Common shares (based on closing per share price of \$17.71; December 31, 2012 – \$18.82) (and common share purchase warrants as at December 31, 2012 – \$0.35)	3,689,981	3,889,163
Total enterprise value (total capital employed)	\$ 7,319,064	\$ 7,300,946
Debt to total assets ⁽¹⁾	42.9%	42.1%
Debt to total assets (at invested cost) ⁽¹⁾	50.5%	49.4%
Debt to total assets (based on unsecured debt covenants) ⁽²⁾	44.6%	45.3%
Debt to enterprise value ⁽¹⁾	44.3%	41.8%
Weighted average interest rate on fixed rate debt and senior unsecured debentures	5.09%	5.28%
Debt/EBITDA	8.32	8.58
Debt/EBITDA – on run rate on components of EBITDA	8.03	7.89
Weighted average maturity on mortgages, other secured debt and senior unsecured debentures (years) ⁽³⁾	5.3	5.3
Unencumbered aggregate assets to unsecured debt		
Total, based on IFRS value ⁽⁴⁾	2.29	2.28
Based on unsecured debt covenants ⁽⁵⁾	2.15	2.09
EBITDA interest coverage	2.34	2.19
EBITDA interest coverage excluding capitalized interest on development	2.71	2.59

⁽¹⁾ Calculated with the joint venture and Main and Main Developments proportionately consolidated and cash balances reducing debt.

⁽²⁾ Includes investment properties at IFRS value, calculated using the average capitalization rate over the last 10 fiscal quarters.

⁽³⁾ Weighted average term to maturity is calculated net of cash balances as at the end of the period.

⁽⁴⁾ Includes all unencumbered assets at IFRS values.

⁽⁵⁾ Includes unencumbered assets as defined by debt covenants, with shopping centres valued under IFRS using the average capitalization rate over the last 10 fiscal quarters.

Measures used in these ratios are defined below:

- Debt consists of principal amounts outstanding on credit facilities and mortgages, and the par value of senior unsecured debentures. Convertible debentures are excluded as it is the Company's 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;
- Secured indebtedness includes mortgages and credit facilities which are collateralized against investment property;
- Enterprise value consists of the market value of the Company's common shares and common share purchase warrants, the par value of senior unsecured debentures and convertible debentures, and principal amounts outstanding on mortgages and credit facilities;
- EBITDA, as defined in the Company's credit facility agreements and indenture governing the senior unsecured debentures, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the value of investment properties, other gains (losses) and (expenses) and other non-cash items;
- Unencumbered assets include the value of assets that have not been pledged as security under any credit agreement or mortgage, excluding investment properties under development and deferred tax assets. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt, which consists of the senior unsecured debentures;
- Run rate is an annualized NOI for a property based upon the existing tenants in place and current operating cost profile for the property.

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.

The Company continues to make substantial progress in reducing the cost of debt and extending and staggering debt maturities. Improvements have been made in key debt metrics over the past several years including weighted average interest rate, weighted average remaining term, and interest coverage ratios.

Since January 1, 2012, the Company has issued \$925 million of unsecured debt for terms from 8.4 years to 10.7 years using certain proceeds to repay early over \$440 million in debt and over \$360 million in debt upon maturity resulting in an extension of the term to maturity for all term debt from 4.5 years at January 1, 2012 to 5.3 years at December 31, 2013. In addition, the Company increased its equity capital by approximately \$529 million since the beginning of 2012.

These financings, along with planned and completed financings subsequent to December 31, 2013, and availability on existing credit facilities, address substantially all of the remaining contractual 2014 debt maturities and contractually committed costs to complete current development projects.

The Company also 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.

The Company intends to maintain financial strength to achieve the lowest cost of debt and equity 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.

Credit Ratings

On November 14, 2012, DBRS upgraded the ratings of the Company's senior unsecured debentures (from BBB with a positive trend) to BBB (high) and changed the trend to stable, from positive. The rating upgrade acknowledges First Capital Realty's progress in terms of enhancing the quality, size and market position of its portfolio of supermarket and drugstore anchored shopping centres in high barrier-to-entry major urban markets across Canada. In addition, according to DBRS at the time, the Company meaningfully reduced the proportion of debt in its capital structure and improved key credit metrics to levels that are more in line with the BBB (high) rating category. 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 (high) 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.

On November 20, 2012, Moody's upgraded the senior unsecured debenture rating of First Capital Realty to Baa2 (from Baa3) and revised the rating outlook to stable, from positive. According to Moody's, the upgrade reflects, at the time, the Company's steady growth in 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. As defined by Moody's, a credit rating of Baa2 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.

Consolidated Debt and Principal Amortization Maturity Profile

<i>(thousands of dollars, except for other data)</i>	Mortgages and Other Secured Debt	Senior Unsecured Debentures	Total	% Due
Outstanding cheques	\$ 5,000	\$ —	\$ 5,000	—
2014	251,661	100,000	351,661	10.90%
2015	242,117	125,000	367,117	11.38%
2016	178,435	—	178,435	5.53%
2017	103,423	250,000	353,423	10.96%
2018	139,531	150,000	289,531	8.98%
2019	120,268	150,000	270,268	8.38%
2020	57,530	175,000	232,530	7.21%
2021	83,055	175,000	258,055	8.00%
2022	170,862	450,000	620,862	19.25%
2023	1,214	300,000	301,214	9.34%
2024 – 2025	2,211	—	2,211	0.07%
	1,355,307	1,875,000	3,230,307	100%
Add (deduct): unamortized deferred financing costs and premium and discounts, net	11,276	(13,047)	(1,771)	—%
	\$ 1,366,583	\$ 1,861,953	\$ 3,228,536	100%

Mortgages and Credit Facilities

The changes in the book value of the Company's mortgages and credit facilities during the year ended December 31, 2013, which excludes the \$11.0 million mortgage on the equity accounted joint venture, are set out below:

<i>(thousands of dollars, except for percentages)</i>	Mortgages and Other Secured Debt	Weighted Average Interest Rate	Outstanding cheques	Secured Credit Facilities	Total
Balance, December 31, 2012	\$ 1,597,234	5.31%	\$ —	\$ —	\$ 1,597,234
Additional borrowings	47,655	3.67%	5,000	—	52,655
Assumed mortgages on acquisition of investment properties	9,957	5.17%	—	—	9,957
Secured financing and loans on residential development inventory	7,131		—	—	7,131
Repayments	(218,997)	5.47%	—	—	(218,997)
Scheduled amortization	(38,903)		—	—	(38,903)
Assumed mortgages on sale of investment properties	(39,503)	5.47%	—	—	(39,503)
Amortization and expensing of issue costs and net premium	(2,991)		—	—	(2,991)
Balance, December 31, 2013	\$ 1,361,583	5.21%	\$ 5,000	\$ —	\$ 1,366,583

As at December 31, 2013, 97% (December 31, 2012 – 98%) of the outstanding mortgage and property-specific debt 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 10 years, and incremental contractual rent steps during the term of the lease. The average remaining term of mortgages outstanding has decreased from 4.5 years as at December 31, 2012 on \$1.6 billion of mortgages to 4.0 years as at December 31, 2013 on \$1.4 billion of mortgages after reflecting the application of cash balances, borrowing activity, assumptions and repayments during the year.

During the year ended December 31, 2013, the Company prepaid or repaid at maturity \$219.0 million amount of mortgage financing with a weighted average interest rate of 5.47% per annum. In addition, during the year ended December 31, 2013, \$39.5 million of mortgage financing was assumed by purchasers on sale of investment properties with a weighted average interest rate of 5.47% per annum.

Mortgages and Other Secured Debt Maturity and Lender Type Profile

<i>(thousands of dollars, except for percentages)</i>	Breakdown of Mortgage Maturities by Type of Lender						
	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate	Percent with Banks	Percent with Conduits	Percent with Insurance Co's and Pension Funds
Outstanding cheques	\$ —	\$ 5,000	\$ 5,000	—%	—%	—%	—%
2014	36,059	215,602	251,661	5.81%	17.60%	39.69%	42.71%
2015	29,007	213,110	242,117	4.98%	7.78%	32.85%	59.37%
2016	23,403	155,032	178,435	5.07%	33.02%	5.26%	61.72%
2017	20,522	82,901	103,423	5.17%	6.46%	39.50%	54.04%
2018	16,485	123,046	139,531	5.53%	4.00%	0.36%	95.64%
2019	13,554	106,714	120,268	6.36%	32.98%	0.43%	66.59%
2020	11,672	45,858	57,530	5.20%	8.21%	0.95%	90.84%
2021	9,658	73,397	83,055	5.05%	70.22%	0.69%	29.09%
2022	3,801	167,061	170,862	3.99%	31.39%	7.84%	60.77%
2023	1,214	—	1,214	—%	—%	—%	100.00%
2024 – 2025	2,211	—	2,211	6.20%	—%	—%	100.00%
Total	\$ 167,586	\$ 1,187,721	\$ 1,355,307	5.21%	21.53%	18.16%	60.32%

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. As at December 31, 2013, the Company had mortgages maturing in 2014 of \$215.6 million at an average interest rate of 5.81% per annum and \$36.1 million of scheduled amortization of principal balances in 2014. Subsequent to December 31, 2013, the Company paid mortgages totalling \$43.0 million, and expects to pay an additional \$8.0 million upon maturity in the first quarter of 2014. The Company's liquidity position as at December 31, 2013 in excess of \$630 million also provides the Company with significant flexibility in addressing these 2014 maturities. Coupon interest rates range from 2.00% to 7.67% on mortgage debt. Mortgage debt by region is \$575 million for Central region, \$239 million for Eastern region and \$536 million for Western region.

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 U.S. prime for U.S. dollar-denominated borrowings or Euro dollars. The BAs currently provide the Company with the lowest cost means of borrowing under these credit facilities. The credit facilities provide liquidity primarily for financing acquisitions, development and redevelopment activities and for general corporate purposes.

On July 26, 2013, the Company completed an increase and extension of its senior unsecured revolving credit facility with a syndicate of nine banks, extending the maturity to June 30, 2016 and increasing the availability from \$500 million to \$600 million. The facility pricing was also reduced from BA +1.50% to BA + 1.325% or Prime rate + 0.325%.

On November 21, 2013, the Company reduced pricing on its \$75 million secured credit facility from BA + 1.50% or Prime Rate + 0.50% to BA + 1.25% or Prime Rate + 0.25%.

The following table summarizes the details of the Company's lines of credit as at December 31, 2013:

<i>(thousands of dollars, except other data)</i>	Borrowing Capacity	Amounts Drawn	Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Secured by development properties	\$ 75,000	\$ —	\$ (23)	\$ 74,977	BA + 1.25% or Prime + 0.25%	December 31, 2014
Unsecured	600,000	—	(43,410)	556,590	C\$ at BA + 1.325% or Prime + 0.325% or US\$ at LIBOR + 1.325%	June 30, 2016
Total secured and unsecured facilities	\$ 675,000	\$ —	\$ (43,433)	\$ 631,567		

Senior Unsecured Debentures

<i>(thousands of dollars, except for percentages)</i>				Interest Rate			Principal Outstanding	
Maturity Date	Interest Payment Dates	Series	Date of Issue	Coupon	Effective	Remaining Term to Maturity (yrs)	December 31, 2013	December 31, 2012
January 31, 2014	July 31, January 31	E	January 31, 2007	5.36%	5.52%	—	\$ —	\$ 53,943
October 30, 2014	April 30, October 30	F	April 5, 2007	5.32%	5.47%	0.8	100,000	100,000
June 1, 2015	June 1, December 1	G	November 20, 2009	5.95%	6.13%	1.4	125,000	125,000
January 31, 2017	July 31, January 31	H	January 21, 2010	5.85%	5.99%	3.1	125,000	125,000
November 30, 2017	May 30, November 30	I	April 13, 2010	5.70%	5.85%	3.9	50,000	50,000
November 30, 2017	May 30, November 30	I	April 13, 2010	5.70%	5.82%	3.9	25,000	25,000
November 30, 2017	May 30, November 30	I	June 14, 2010	5.70%	5.70%	3.9	50,000	50,000
August 30, 2018	February 28, August 30	J	July 12, 2010	5.25%	5.66%	4.7	50,000	50,000
November 30, 2018	May 31, November 30	K	August 25, 2010	4.95%	5.30%	4.9	50,000	50,000
November 30, 2018	May 31, November 30	K	October 26, 2010	4.95%	5.04%	4.9	50,000	50,000
July 30, 2019	January 30, July 30	L	January 21, 2011	5.48%	5.61%	5.6	150,000	150,000
April 30, 2020	April 30, October 30	M	March 30, 2011	5.60%	5.73%	6.3	110,000	110,000
April 30, 2020	April 30, October 30	M	June 13, 2011	5.60%	5.39%	6.3	65,000	65,000
March 1, 2021	March 1, September 1	N	April 4, 2012	4.50%	4.63%	7.2	175,000	175,000
January 31, 2022	January 31, July 31	O	June 1, 2012	4.43%	4.56%	8.1	100,000	100,000
January 31, 2022	January 31, July 31	O	July 17, 2012	4.43%	4.42%	8.1	50,000	50,000
January 31, 2022	January 31, July 31	O	August 29, 2013	4.43%	4.83%	8.1	50,000	—
December 5, 2022	June 5, December 5	P	December 5, 2012	3.95%	4.16%	8.9	150,000	150,000
December 5, 2022	June 5, December 5	P	January 14, 2013	3.95%	4.20%	8.9	100,000	—
October 30, 2023	April 30, October 30	Q	March 26, 2013	3.90%	4.06%	9.8	125,000	—
October 30, 2023	April 30, October 30	Q	May 15, 2013	3.90%	3.90%	9.8	175,000	—
				4.86%	5.00%	6.3	\$ 1,875,000	\$ 1,478,943

On January 14, 2013, the Company completed the issuance of an additional \$100 million principal amount of senior unsecured debentures, Series P, due December 5, 2022. These debentures bear interest at a coupon rate of 3.95% per annum, payable semi-annually commencing June 5, 2013.

On March 26, 2013, the Company completed the issuance of \$125 million principal amount of senior unsecured debentures, Series Q, due October 30, 2023. These debentures bear interest at a coupon rate of 3.90% per annum, payable semi-annually commencing October 30, 2013.

On May 15, 2013, the Company completed the issuance of \$175 million principal amount of senior unsecured debentures, Series Q, due October 30, 2023. These debentures bear interest at a coupon rate of 3.90% per annum, payable semi-annually commencing October 30, 2013.

On June 7, 2013, the Company redeemed the remaining \$53.9 million principal amount outstanding of its 5.36% Series E senior unsecured debentures. The debentures were redeemed at a price of \$1,025.87 for each \$1,000 principal amounts of debentures outstanding. In addition, accrued and unpaid interest was paid on the debentures up to but excluding the redemption date. In connection with the redemption, total cash of \$56.3 million was paid to the holders, which consisted of \$53.9 million of principal, \$1.4 million in premium and \$1.0 million in accrued but unpaid interest.

On August 29, 2013, the Company completed the issuance of \$50 million principal amount of senior unsecured debentures, Series O, due January 31, 2022. These debentures bear interest at a coupon rate of 4.43% per annum, payable semi-annually commencing January 31, 2014.

On January 20, 2014, the Company completed the issuance of \$150 million principal amount of senior unsecured debentures, Series R, due August 30, 2024. These debentures bear interest at a coupon rate of 4.79% per annum payable semi-annually commencing August 30, 2014. On February 18, 2014, the Company completed the issuance of an additional \$75 million principal amount of the senior unsecured debentures, which was a re-opening of this series of debentures with effective rate of 4.54% per annum.

Convertible Debentures

(thousands of dollars, except for percentages)

As at December 31, 2013

Interest Rate		Date of Issue	Maturity Date	Interest Payment Dates	Principal at			
Coupon	Effective				Issue Date	Principal	Liability	Equity
5.70%	6.88%	December 30, 2009	June 30, 2017	March 31 September 30	\$ 50,000	\$ 42,917	\$ 41,362	\$ 984
5.40%	6.90%	April 28, 2011	January 31, 2019	March 31 September 30	57,500	57,500	53,844	2,192
5.25%	6.07%	August 9, 2011	January 31, 2019	March 31 September 30	57,500	57,500	55,477	390
5.25%	6.66%	December 15, 2011	March 31, 2018	March 31 September 30	50,000	50,000	47,427	1,155
4.95%	6.51%	February 16, 2012	March 31, 2017	March 31 September 30	75,000	75,000	71,620	1,495
4.75%	6.19%	May 22, 2012	July 31, 2019	March 31 September 30	52,500	52,500	49,277	1,439
4.45%	5.34%	February 19, 2013	February 28, 2020	March 31 September 30	57,500	57,500	55,005	403
5.08%	6.35%					\$ 392,917	\$ 374,012	\$ 8,058

(i) Principal and Interest

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 by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

During the year ended December 31, 2013, 1.1 million common shares (year ended December 31, 2012 – 1.1 million common shares) were issued totalling \$19.1 million (year ended December 31, 2012 – \$20.5 million) to pay interest to holders of convertible debentures.

(ii) Issuance of Convertible Debentures

On February 19, 2013, the Company completed the issuance of \$57.5 million aggregate principal amount of convertible unsecured subordinated debentures due February 28, 2020. The debentures bear interest at a rate of 4.45% per annum, payable semi-annually on March 31 and September 30 (commencing September 30, 2013), and are convertible at the option of the holder into common shares of the Company at a conversion price of \$26.75 per common share until February 28, 2018 and thereafter at a conversion price of \$27.75 per common share until maturity.

(iii) Principal Redemptions

For the year ended December 31, 2013, the Company did not issue any common shares in connection with debentures redeemed or converted, as there were no redemptions or conversions.

(iv) Normal Course Issuer Bid

On August 23, 2013, the Company renewed its normal course issuer bid ("NCIB") for all of its then outstanding series of convertible unsecured subordinated debentures. The NCIB will expire on August 26, 2014 or such earlier date as First Capital Realty completes its purchases pursuant to the NCIB. All purchases made under the NCIB are at market prices prevailing at the time of purchase determined by or on behalf of First Capital Realty.

For the years ended December 31, 2013 and 2012, principal amounts and amounts paid for the purchases are represented in the table below:

<i>(thousands of dollars)</i>	Year ended December 31			
	2013		2012	
	Principal Amount Purchased	Amount Paid	Principal Amount Purchased	Amount Paid
Total	\$ 3,175	\$ 3,426	\$ 3,035	\$ 3,315

Shareholders' Equity

Shareholders' equity amounted to \$3.3 billion as at December 31, 2013, as compared to \$3.2 billion as at December 31, 2012.

As at December 31, 2013, the Company had 208.4 million (December 31, 2012 – 206.5 million) issued and outstanding common shares with a stated capital of \$2.5 billion (December 31, 2012 – \$2.4 billion). During the year ended December 31, 2013, a total of 1.8 million common shares were issued for proceeds of \$29.2 million as follows: 1.1 million shares for interest payments on convertible debentures, 0.6 million shares from the exercise of common share options and 0.1 million shares from the settlement of restricted share units.

On August 2, 2013, 5.6 million warrants, which were exercisable at \$19.75, expired without exercise. The Company reclassified the remaining warrant balance from contributed surplus and other equity items to share capital.

As at February 20, 2014, there were 208.4 million common shares outstanding.

Share Purchase Options

As at December 31, 2013, the Company had outstanding 6.0 million share purchase options, with an average exercise price of \$16.37. The options are exercisable by the holder at any time after vesting up to 10 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 approximately 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 as at December 31, 2013 were exercised, 6.0 million shares would be issued and the Company would receive proceeds of approximately \$97.7 million.

Liquidity

<i>(thousands of dollars)</i>	December 31, 2013	December 31, 2012
Revolving credit facilities approved	\$ 675,000	\$ 575,000
Cash and cash equivalents, net of cash collateralized letters of credit	4,975	30,996
Unencumbered assets		
Total, based on IFRS value ⁽¹⁾	4,291,638	3,377,586
Based on debt covenants ⁽²⁾	4,038,235	3,088,967

⁽¹⁾ Includes all unencumbered assets at IFRS values.

⁽²⁾ Includes unencumbered assets as defined by debt covenants, with shopping centres valued under IFRS at the average capitalization rate over the last 10 fiscal quarters.

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 35% to 50% of enterprise value based on current market conditions. This target was lowered in 2012 to reflect the Company's ongoing commitment to achieving a lower cost of capital. As at December 31, 2013, this debt ratio was 44.3% based on the Company's calculation. Maturing debt is generally repaid from proceeds from refinancing such debt.

Cash and cash equivalents were \$5.0 million as at December 31, 2013 (December 31, 2012 – \$64.0 million). As at December 31, 2013, the Company had secured and unsecured credit facilities totalling \$675.0 million of which \$631.6 million is available to be drawn. During the year, the Company expanded its unsecured credit facilities from \$500 million to \$600 million providing additional liquidity. The Company also had unencumbered assets with a fair value of approximately \$4.3 billion. During the year ended December 31, 2013, the Company issued \$57.5 million of convertible debentures and issued net \$396.1 million of senior unsecured debentures. This increased liquidity was partially used to prepay or repay \$219.0 million of mortgage debt. As a result, the Company also held average cash balances of approximately \$109.6 million during the year. 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	
	2013	2012
<i>(thousands of dollars)</i>		
Cash flow from operating activities before net change in non-cash operating items and expenditures on residential development inventory	\$ 227,890	\$ 197,348
Net change in non-cash operating items	(287)	10,009
Expenditures on residential development inventory	(14,984)	(14,351)
Cash provided by operating activities	212,619	193,006
Cash provided by financing activities	72,072	309,932
Cash used in investing activities	(343,731)	(440,763)
Net (decrease) increase in cash and cash equivalents	\$ (59,040)	\$ 62,175

Operating Activities

Cash provided by operating activities increased due to cash flow generated from growth in net operating income from the Company's shopping centre portfolio and from the timing of receipts and payments on working capital and other non-cash items.

Financing Activities

Financing activities are lower as a result of net mortgage payable repayments as compared to the prior year, offset by higher net debenture issuance. These activities are more fully described in the "Capital Structure and Liquidity" section of this MD&A.

Investing Activities

The decrease in cash used in investing activities results from decreased investment property acquisition activity and decreased capital expenditure on the portfolio in 2013, offset by the additional investments in loans, mortgages and other real estate assets in 2013 as compared to the prior year activity, as well as a decrease in net proceeds from property dispositions. 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

<i>(thousands of dollars)</i>	Payments Due by Period				Total
	2014	2015 to 2016	2017 to 2018	Thereafter	
Mortgages and other secured debt					
Scheduled amortization	\$ 36,059	\$ 52,410	\$ 37,007	\$ 42,110	\$ 167,586
Payments on maturity	215,602	368,142	205,947	393,030	1,182,721
Total mortgage obligations	251,661	420,552	242,954	435,140	1,350,307
Mortgage on equity accounted joint venture	434	10,425	—	—	10,859
Senior unsecured debentures	100,000	125,000	400,000	1,250,000	1,875,000
Loans and mortgage payable ⁽¹⁾	25,251	—	—	—	25,251
Interest obligations ⁽²⁾	157,387	250,350	194,904	214,163	816,804
Land leases (expiring between 2023 and 2061)	979	1,964	1,986	18,602	23,531
Contractual committed costs to complete current development projects	19,533	3,865	—	—	23,398
Other committed costs	16,082	—	—	—	16,082
Total contractual obligations ⁽³⁾	\$ 571,327	\$ 812,156	\$ 839,844	\$ 1,917,905	\$ 4,141,232

⁽¹⁾ Loans and mortgage payable include a \$8.8 million loan relating to residential development inventory and a \$17.4 million third party loan which is secured by \$17.4 million in Government of Canada bonds.

⁽²⁾ Interest obligations include expected interest payments on mortgages, other secured debt and credit facilities as at December 31, 2013 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

⁽³⁾ 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, and as such have been excluded from this table.

In addition, the Company has \$43.4 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.

The Company's estimated cost to complete properties currently under development is \$95.5 million, of which \$23.4 million is contractually committed. The balance of the costs to complete will only be committed once leases are signed and/or 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 in the normal course as the work is completed.

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 the 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 \$60.0 million (December 31, 2012 – \$59.4 million) to various lenders in connection with certain obligations, including loans advanced to its partners secured by the partners' interest in the entity and underlying assets.

DIVIDENDS

The Company has paid regular quarterly dividends to common shareholders since it commenced operations as a public company in 1994. Dividends on the common shares, if any, that are declared are at the discretion of the Board of Directors and are set from time to time after taking into consideration the Company's capital requirements, its alternative sources of capital and common industry cash distribution practices.

	Year ended December 31	
	2013	2012
Regular dividends paid per common share	\$ 0.84	\$ 0.82
Payout ratio calculated as a percentage of:		
Funds from operations	81.1%	82.1%
Adjusted funds from operations	83.8%	86.5%

Quarterly Dividend

The Company announced that it will pay a first quarter dividend of \$0.21 per common share on April 10, 2014 to shareholders of record on March 27, 2014.

SUMMARY OF FINANCIAL RESULTS OF LONG-TERM DEBT GUARANTORS

The Company's senior unsecured debentures are guaranteed by the wholly owned subsidiaries of First Capital Realty, other than nominee subsidiaries and inactive subsidiaries. All such current and future wholly owned subsidiaries will provide a guarantee of the debentures. In the case of default by First Capital Realty, the indenture trustee will, subject to the indenture, be entitled to seek redress from such wholly owned subsidiaries for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of First Capital Realty. These guarantees are intended to eliminate structural subordination, which arises as a consequence of a significant portion of First Capital Realty's assets being held in various subsidiaries.

The following tables set forth selected consolidating summary information for the Company for the periods identified below presented separately for (i) First Capital Realty (denoted as FCR); (ii) guarantor subsidiaries; (iii) non-guarantor subsidiaries; (iv) consolidating adjustments; and (v) the total consolidated amounts.

	FCR ⁽¹⁾	Guarantors ⁽²⁾	Non-Guarantors ⁽³⁾	Consolidation Adjustments ⁽⁴⁾	Total Consolidated
<i>(millions of dollars)</i>	Year ended December 31				
	2013	2013	2013	2013	2013
Statement of Income Data:					
Property rental revenue	\$ 252	\$ 405	\$ 5	\$ (30)	\$ 632
NOI	156	240	4	(2)	398
Net income attributable to common shareholders	215	218	3	(221)	215

	FCR ⁽¹⁾	Guarantors ⁽²⁾	Non-Guarantors ⁽³⁾	Consolidation Adjustments ⁽⁴⁾	Total Consolidated
<i>(millions of dollars)</i>	December 31, 2013				
Balance Sheet Data (at period end):					
Current assets	\$ 212	\$ 129	\$ 3	\$ (4)	\$ 340
Non-current assets	6,621	4,324	176	(3,865)	7,256
Current liabilities	544	110	17	(56)	615
Non-current liabilities	2,966	635	122	(65)	3,658

	FCR ⁽¹⁾		Guarantors ⁽²⁾		Non-Guarantors ⁽³⁾		Consolidation Adjustments ⁽⁴⁾		Total Consolidated	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
<i>(millions of dollars)</i>	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾
Statement of Income Data:										
Property rental revenue	\$ 198	\$ 167	\$ 407	\$ 384	\$ 1	\$ —	\$ (27)	\$ (29)	\$ 579	\$ 522
NOI	126	106	244	235	1	—	(2)	(4)	369	337
Net income attributable to common shareholders	393	549	355	443	9	4	(364)	(447)	393	549

	FCR ⁽¹⁾		Guarantors ⁽²⁾		Non-Guarantors ⁽³⁾		Consolidation Adjustments ⁽⁴⁾		Total Consolidated	
	As at December 31		As at December 31		As at December 31		As at December 31		As at December 31	
<i>(millions of dollars)</i>	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾	2012	2011 ⁽⁵⁾
Balance Sheet Data (at period end):										
Current assets	\$ 397	\$ 126	\$ 93	\$ 86	\$ 5	\$ 4	\$ (12)	\$ 5	\$ 483	\$ 221
Non-current assets	5,766	4,987	4,610	3,973	135	26	(3,732)	(3,130)	6,779	5,856
Current liabilities	403	448	54	164	9	5	13	(109)	479	508
Non-current liabilities	2,511	2,152	967	857	84	17	(28)	30	3,534	3,056

⁽¹⁾ This column accounts for investments in all subsidiaries of FCR under the equity method.

⁽²⁾ This column accounts for investments in subsidiaries of the Company other than the guarantors under the equity method.

⁽³⁾ This column accounts for investments in all subsidiaries of the Company other than guarantors on a combined basis.

⁽⁴⁾ This column includes the necessary amounts to eliminate the inter-company balances between FCR, the guarantors, and other subsidiaries to arrive at the information for the Company on a consolidated basis.

⁽⁵⁾ 2011 amounts have not been restated for adoption of IFRS 10 and IFRS 11.

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, 2013, Alony-Hetz Properties and Investments Ltd. (“Alony-Hetz”) also beneficially owns 8.5% (December 31, 2012 – 10.3%) 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.

Corporate and other amounts receivable include amounts due from Gazit. Gazit reimburses the Company for certain accounting and administrative services provided to it by the Company. In 2012, Gazit was also a tenant at a property owned by the Company. In addition, the Company held a non-revolving unsecured term loan receivable from a subsidiary of Gazit, in the amount of US\$36 million on which the Company earned interest until it was repaid on August 14, 2012. Such amounts consist of the following:

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
Reimbursements for professional services	\$ 720	\$ 766
Interest payments	—	\$ 1,903

As at December 31, 2013, amounts due from Gazit were \$0.2 million (December 31, 2012 – \$0.4 million).

On August 8, 2012, a court-approved plan of arrangement for Gazit America Inc. was completed involving First Capital Realty and Gazit. Under the plan of arrangement, First Capital Realty acquired the shares of Gazit America’s operating subsidiaries which together owned and managed all of the medical office and retail properties of Gazit America, and had held certain property-related inter-company indebtedness owing to Gazit America. The reason for First Capital Realty to complete the transaction was to acquire from Gazit America 12 medical office and retail properties generally adjacent to existing First Capital Realty properties and a 50% interest in a thirteenth property jointly owned with First Capital Realty. Refer to the “Business and Operations Review - 2012 Acquisitions” section of this MD&A for further discussion.

(b) Subsidiaries of the Company

The consolidated financial statements include the financial statements of First Capital Realty and First Capital Holdings Trust. First Capital Holdings Trust is the only significant subsidiary of First Capital Realty and is wholly owned by the Company.

QUARTERLY FINANCIAL INFORMATION

	2013				2012 ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(thousands of dollars, except per share and other data, and thousands of shares)</i>								
Property rental revenue	\$ 161,094	\$ 154,804	\$ 157,910	\$ 157,797	\$ 155,021	\$ 146,130	\$ 139,907	\$ 138,201
Property operating costs	58,588	56,436	58,518	60,053	58,908	50,794	49,255	51,170
Net operating income	102,506	98,368	99,392	97,744	96,113	95,336	90,652	87,031
Increase in value of investment properties, net	1,178	—	40,745	14,162	32,813	73,608	106,069	74,460
Net income attributable to common shareholders	47,901	41,078	73,163	52,720	69,890	101,873	122,228	98,933
Net income per share attributable to common shareholders:								
Basic	0.23	0.20	0.35	0.25	0.34	0.54	0.68	0.55
Diluted	0.23	0.20	0.34	0.25	0.33	0.51	0.63	0.52
Weighted average number of diluted common shares outstanding – EPS	228,908	208,819	225,785	211,581	222,633	208,131	200,311	196,763
FFO	\$ 55,816	\$ 53,537	\$ 53,308	\$ 52,882	\$ 49,099	\$ 47,660	\$ 48,100	\$ 44,222
FFO per diluted share	0.27	0.26	0.26	0.25	0.24	0.25	0.26	0.25
Cash provided by operating activities	84,536	49,832	36,283	36,938	66,012	42,712	34,968	44,663
Weighted average number of diluted common shares outstanding – FFO	209,486	208,819	209,010	208,207	207,930	189,028	181,906	180,456
AFFO ⁽²⁾	\$ 57,190	\$ 56,069	\$ 57,699	\$ 54,252	\$ 52,374	\$ 49,960	\$ 48,669	\$ 44,925
AFFO per diluted share ⁽²⁾	0.25	0.25	0.26	0.24	0.24	0.24	0.24	0.23
Weighted average number of diluted shares outstanding – AFFO	226,183	225,539	225,785	223,686	222,632	208,131	200,311	196,763
Regular dividend	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.20	\$ 0.20
Fair value of investment properties – shopping centres	7,126,008	6,996,401	6,920,530	6,940,557	6,849,078	6,588,478	6,187,432	5,871,610
Weighted average capitalization rate of shopping centres	5.86%	5.89%	5.89%	5.98%	6.00%	6.11%	6.14%	6.25%
Total assets	\$ 7,596,255	\$ 7,580,839	\$ 7,531,620	\$ 7,518,732	\$ 7,261,617	\$ 7,156,689	\$ 6,593,723	\$ 6,228,171
Total mortgages and credit facilities	1,366,583	1,371,047	1,387,240	1,547,530	1,597,234	1,626,621	1,513,488	1,555,414
Shareholders' equity	3,319,370	3,313,802	3,304,866	3,267,033	3,245,168	3,214,577	2,698,777	2,608,131
Other data								
Number of properties	164	164	164	172	175	172	165	166
Gross leasable area (in thousands)	24,462	24,313	24,123	25,029	24,969	24,152	23,471	23,095
Occupancy %	95.5%	95.0%	95.2%	95.1%	95.6%	95.6%	95.7%	95.9%

⁽¹⁾ 2012 amounts have been restated, where applicable, for the effects of the adoption of IFRS 10 and IFRS 11.

⁽²⁾ AFFO for the year and quarters ended December 31, 2012 and quarters 1 to 3 in 2013 have been restated. See the "Results of Operations - Funds From Operations and Adjusted Funds From Operations" section of this MD&A for further discussion.

Refer to the applicable MD&A and the Quarterly Financial Statements for discussion and analysis relating to the first three quarters of 2013 and 2012.

FOURTH QUARTER 2013 OPERATIONS AND RESULTS

Investment Property Development and Redevelopment Activities

During the fourth quarter of 2013, the Company invested \$46.4 million in the acquisition of one income-producing property totalling 63,000 square feet. The Company also invested \$17.0 million in the acquisition of five additional spaces and adjacent land parcels totalling 16,000 square feet and 1.4 acres. Further, the Company invested \$1.5 million in the acquisition of one development land assembly, comprising 0.2 acres of commercial land for future development.

For the three months ended December 31, 2013, the increase in value of investment properties, net was \$1.2 million resulting from the decrease in the weighted average stabilized capitalization rate from 5.89% to 5.86% during the quarter, offset by certain fourth quarter 2013 capital expenditures.

In addition to acquisitions of income-producing properties and development lands, the Company invested \$75.9 million during the fourth quarter in its active development projects as well as in certain improvements to existing properties.

The Company also sold one shopping centre comprising 40,000 square feet of gross leasable area and one 7.5 acre land parcel.

Capital Expenditures on Investment Properties

Revenue sustaining and enhancing expenditures on investment properties which includes shopping centres and development land are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31	
	2013	2012
Revenue sustaining – same property - stable	\$ 3,744	\$ 3,850
Revenue sustaining – same property with incremental development and expansion	1,296	2,209
Revenue sustaining – total same property	5,040	6,059
Enhancing capital expenditures:		
Revenue enhancing and other	13,006	24,106
Expenditures recoverable from tenants	8,784	5,147
Development expenditures	49,031	63,704
Total	\$ 75,861	\$ 99,016

Capital expenditures on the shopping centre portfolio by property categorization are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31	
	2013	2012
Same property – stable	\$ 4,372	\$ 9,058
Same property with incremental redevelopment and expansion	13,884	30,492
Major redevelopment	24,675	26,288
Ground-up development	15,348	16,704
Acquisitions – 2013	944	5,428
Acquisitions – 2012	13,323	4,482
Investment properties classified as held for sale	—	5,711
Development land	3,315	853
Total	\$ 75,861	\$ 99,016

Leasing and Occupancy

In the fourth quarter of 2013, gross new leasing totalled 348,000 square feet including development and redevelopment space coming on line. This gross new leasing will generate additional annual minimum rent of approximately \$6.8 million. The Company achieved a 10.2% increase on 768,000 square feet of renewal leases over the expiry rates.

With the impact of leasing during the three months ended December 31, 2013 on the existing portfolio and development space, new acquisitions and increases from contractual rent steps, the average rate per occupied square foot increased to \$17.96 as at December 31, 2013. This compares to an average rate of \$17.83 as at September 30, 2013 and \$17.51 at December 31, 2012.

Closures for redevelopment totalled 14,000 square feet in the three months ended December 31, 2013, providing potential for future income growth through leasing and redevelopment activities.

Changes in the Company's gross leasable area and occupancy for its shopping centre portfolio in the fourth quarter of 2013 are set out below:

	Total Square Feet		Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet		No. of Leases	Weighted Average Rate per Occupied Square Foot
	(thousands)	(thousands)	%	(thousands)	%	(thousands)	%			
<i>Three months ended December 31, 2013</i>										
September 30, 2013	24,314	23,097	95.0 %	192	0.8%	1,025	4.2%			\$ 17.83
Tenant openings	—	196		—		(196)		103		18.90
Tenant closures	—	(107)		—		107		(68)		(20.51)
Closures for redevelopment	—	(14)		14		—		(15)		(22.13)
Developments – coming on line	138	118		—		20		19		20.50
Redevelopments – coming on line	—	34		(34)		—		4		19.83
Reclassification	(29)	(3)		7		(33)		—		—
Total portfolio before dispositions and acquisitions	24,423	23,321	95.5 %	179	0.7%	923	3.8%			\$ 17.92
Dispositions (at date of disposition)	(40)	(21)	52.5 %	—		(19)		(18)		18.64
Acquisitions (at date of acquisition)	79	72	91.1 %	—		7		20		30.19
December 31, 2013	24,462	23,372	95.5 %	179	0.7%	911	3.7%			\$ 17.96
Renewals		768						229		\$ 19.37
Renewals – expired		(768)						(229)		\$ (17.58)
Net increase per square foot from renewals										\$ 1.79
% Increase on renewal of expiring rents										10.2%

Development of 138,000 square feet was brought on line in the fourth quarter of 2013, with 118,000 square feet leased at an average rate of \$20.50 per square foot. The Company also reopened 34,000 square feet of redeveloped space at an average rate of \$19.83 per square foot.

Development and redevelopment of 172,000 square feet was completed in the fourth quarter of 2013 compared with 232,000 square feet developed in the fourth quarter of 2012. 152,000 square feet of this newly developed space was occupied at an average rental rate of \$20.35 per square foot when transferred to income-producing shopping centres.

Development and redevelopment coming on line during the fourth quarter of 2013 included the following:

Property Name	Building to LEED Standards ⁽¹⁾	City	Province	Square Feet	Major Tenants of Developed Space
Same property with incremental redevelopment and expansion					
Carrefour St-David	✓	Beauport	QC	23,000	Gold's Gym
Hunt Club Marketplace	✓	Toronto	ON	14,000	Dollarama
Gloucester City Centre		Ottawa	ON	13,000	RBC Royal Bank, PharmaPlus
Place Nelligan/Plaza St-Rene	✓	Gatineau	QC	11,000	Dollarama
Place Pointe-aux-Trembles		Montreal	QC	10,000	Dollarama
Other				7,000	RBC Royal Bank, Dollarama
Major redevelopment					
Port Place Shopping Centre	✓	Nanaimo	BC	46,000	Dollarama, TimberWest
Mount Royal Village		Calgary	AB	33,000	GoodLife Fitness
Other				1,000	Various tenants
Ground-up development					
Shops at King Liberty		Toronto	ON	8,000	Various tenants
Carrefour du Plateau-des-Grives	✓	Gatineau	QC	6,000	McDonalds
Total				172,000	
Total development brought on line				138,000	
Total other redevelopment brought on line				34,000	Leased to various tenants
				172,000	

⁽¹⁾ The Company's policy is to build to LEED standards subject to tenant acceptance and existing physical structure limitations. Refer to the "Corporate Responsibility and Sustainability" section of this MD&A.

In the fourth quarter of 2012, gross new leasing totalled 375,000 square feet including development and redevelopment space coming on line compared to 291,000 square feet in the fourth quarter of 2011. This gross new leasing generated additional annual minimum rent of approximately \$7.8 million. Renewal leasing totalled 355,000 square feet with a 10.6% increase over expiring lease rates.

Changes in the Company's gross leasable area and occupancy for the shopping centre portfolio in the fourth quarter of 2012 are set out below:

	Total Square Feet		Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet		No. of Leases	Weighted Average Rate per Occupied Square Foot
	(thousands)	(thousands)	%	(thousands)	%	(thousands)	%			
<i>Three months ended December 31, 2012</i>										
September 30, 2012	24,152	23,086	95.6 %	175	0.7%	891	3.7%		\$ 17.42	
Tenant openings	—	202		—		(202)		74	21.28	
Tenant closures	—	(145)		—		145		(56)	(18.12)	
Closures for redevelopment	—	(37)		37		—		(6)	(13.50)	
Developments – coming on line	199	140		—		59		45	21.02	
Redevelopments – coming on line	—	33		(33)		—		4	16.36	
Demolitions	(2)	—		(2)		—		—	—	
Reclassification	23	9		(5)		19		—	—	
Total portfolio before dispositions and acquisitions	24,372	23,288	95.6 %	172	0.7%	912	3.7%		\$ 17.60	
Dispositions (at date of disposition)	(49)	(42)	85.7 %	—		(7)		(6)	(23.08)	
Acquisitions (at date of acquisition)	646	627	97.1 %	—		19		147	14.57	
December 31, 2012	24,969	23,873	95.6 %	172	0.7%	924	3.7%		\$ 17.51	
Renewals		355						89	\$ 18.27	
Renewals – expired		(355)						(89)	\$ (16.52)	
Net increase per square foot from renewals									\$ 1.75	
% Increase on renewal of expiring rents										10.6%

Net Income

Reconciliation of Consolidated Statements of Income, as presented, to the Company's Proportionate Interest

Net income attributable to common shareholders for the three months ended December 31, 2013 was \$47.9 million or \$0.23 per share (diluted) compared to \$69.9 million or \$0.33 per share (diluted) for the three months ended December 31, 2012. The decrease in net income as compared to the same prior year period is primarily due to the \$31.6 million difference in fair value gain of investment properties and the related reduction in deferred income taxes, offset by the increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line and same property NOI growth. On a per share basis, the decrease is also partially due to the increase in the weighted average number of common shares outstanding resulting from various financing activities and growth of the Company.

The following table provides the reconciliation of the Company's consolidated statements of income, as presented in the consolidated financial statements, to proportionate interest.

<i>(thousands of dollars)</i>	Three months ended December 31					
	2013			2012		
	Consolidated Statements of Income (Equity method)	Adjustment for equity method to proportionate interest	Proportionate interest	Consolidated Statements of Income (Equity method)	Adjustment for equity method to proportionate interest	Proportionate interest
Net operating income						
Property rental revenue	\$ 161,094	\$ 1,116	\$ 162,210	\$ 155,021	\$ 1,050	\$ 156,071
Property operating costs	58,588	352	58,940	58,908	365	59,273
Net operating income	102,506	764	103,270	96,113	685	96,798
Other income and expenses						
Interest and other income	2,766	—	2,766	1,968	17	1,985
Interest expense	(40,940)	(132)	(41,072)	(39,805)	(138)	(39,943)
Corporate expenses	(7,198)	—	(7,198)	(6,036)	—	(6,036)
Abandoned transaction costs	(950)	—	(950)	(981)	—	(981)
Amortization expense	(1,008)	—	(1,008)	(1,194)	—	(1,194)
Share of profit from joint venture	611	(611)	—	573	(573)	—
Other gains (losses) and (expenses)	(423)	—	(423)	(1,972)	—	(1,972)
Increase in value of investment properties, net	1,178	(21)	1,157	32,813	9	32,822
	(45,964)	(764)	(46,728)	(14,634)	(685)	(15,319)
Income before income taxes	56,542	—	56,542	81,479	—	81,479
Deferred income taxes	8,506	—	8,506	11,324	—	11,324
Net income	\$ 48,036	\$ —	\$ 48,036	\$ 70,155	\$ —	\$ 70,155
Net income attributable to:						
Common shareholders	\$ 47,901	—	\$ 47,901	\$ 69,890	—	\$ 69,890
Non-controlling interest	135	—	135	265	—	265
	\$ 48,036	\$ —	\$ 48,036	\$ 70,155	\$ —	\$ 70,155
Net income per share attributable to common shareholders:						
Basic	\$ 0.23			\$ 0.34		
Diluted	\$ 0.23			\$ 0.33		
Weighted average number of common shares – diluted (in thousands)	228,908			222,632		

Funds from Operations

FFO was \$55.8 million or \$0.27 per share (diluted) compared to \$49.1 million or \$0.24 per share (diluted) in the same prior year period. The increase in FFO is primarily due to the increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line, same property NOI growth and increased interest and other income from other real estate investments. The effects of the increase in NOI and interest and other income were partially offset by increases in interest expense and corporate expenses. On a per share basis, the increases in FFO were offset by an increase in the weighted average number of common shares outstanding resulting from various equity financing activities.

The Company's net income with proportionate interest is reconciled to funds from operations below:

<i>(thousands of dollars)</i>	Three months ended December 31	
	2013	2012
Net income for the period	\$ 48,036	\$ 70,155
Add (deduct):		
Increase in value of investment properties, net	(1,157)	(32,822)
Investment properties – selling costs	573	257
Transaction costs	—	56
Deferred income taxes	8,506	11,324
Non-controlling interest	(142)	129
FFO	\$ 55,816	\$ 49,099

The components of FFO with proportionate interest are as follows:

<i>(thousands of dollars, except share and per share amounts and percentages)</i>	% increase	Three months ended December 31	
		2013	2012
Net operating income		\$ 103,270	\$ 96,798
Interest expense		(41,072)	(39,943)
Corporate expenses		(7,198)	(6,036)
Abandoned transaction costs		(950)	(981)
Amortization expense (corporate assets and credit facility costs)		(1,008)	(1,194)
Interest and other income		2,766	1,985
Non-controlling interest		(142)	129
FFO excluding other gains (losses) and (expenses)	9.7%	55,666	50,758
Other gains (losses) and (expenses) ⁽¹⁾		150	(1,659)
FFO	13.7%	\$ 55,816	\$ 49,099
FFO per diluted share	12.5%	\$ 0.27	\$ 0.24
FFO per diluted share excluding other gains (losses) and (expenses)	12.5%	\$ 0.27	\$ 0.24
Weighted average number of common shares – diluted – FFO (in thousands)	0.7%	209,486	207,930

⁽¹⁾ Refer to the "Fourth Quarter 2013 Operations and Results - Other Gains (Losses) and (Expenses)" section in the following pages for details.

Adjusted Funds from Operations

In the fourth quarter of 2013, the definition of revenue sustaining capital expenditure has been further refined by property category in order to be consistent with how the Company evaluates and categorizes its business operations. Previously, revenue sustaining capital expenditures were deducted from AFFO in all properties regardless of property category. This resulted in restatement of AFFO for the year ended December 31, 2012 and the first three quarters of 2013 to reflect this change. Refer to the “Results of Operations - Fund from Operations and Adjusted Funds from Operations” section of this MD&A for further details.

AFFO for the three months ended December 31, 2013 totalled \$57.2 million or \$0.25 per share (diluted) compared to \$52.4 million or \$0.24 per share (diluted) in the same prior year period. AFFO included \$0.1 million of other net gains in the quarter compared to \$1.5 million of other net gains for the same prior year period.

	Three months ended December 31		
<i>(thousands of dollars, except share and per share amounts and percentages)</i>	% increase	2013	2012 <i>(Restated)</i>
FFO		\$ 55,816	\$ 49,099
Add (deduct):			
Interest expense payable in shares		5,982	5,240
Rental revenue recorded on a straight-line basis		(2,637)	(2,956)
Non-cash compensation expense		737	708
Same property Revenue sustaining capital expenditures and leasing costs ⁽¹⁾		(3,523)	(3,533)
Change in cumulative unrealized losses (gains) on marketable securities		(149)	(1,082)
Loss on settlement of debt and purchase of convertible debentures		29	4,123
Hedge accounting gains		(11)	23
Pre-selling costs of residential inventory units		61	101
Costs not capitalized during development period ⁽²⁾		947	886
Other adjustments		(62)	(235)
AFFO	9.2%	57,190	52,374
Add/deduct: Other (gains) losses and expenses ⁽³⁾		(80)	(1,505)
AFFO excluding other (gains) losses and expenses	12.3%	\$ 57,110	\$ 50,869
AFFO per diluted share	4.2%	\$ 0.25	\$ 0.24
AFFO per diluted share excluding other (gains) losses and expenses	8.7%	\$ 0.25	\$ 0.23
Weighted average number of common shares – diluted – AFFO (in thousands)	1.6%	226,183	222,632

⁽¹⁾ Estimated at \$0.84 per square foot per annum (2012 – \$0.82) on average gross leasable area of stable properties (based on an estimated three-year weighted average).

⁽²⁾ The Company has added back costs not capitalized during the development period for accounting purposes that, in Management's view forms part of the cost of its development projects.

⁽³⁾ Refer to the “Fourth Quarter 2013 Operations and Results - Other Gains (Losses) and (Expenses)” section in the following pages for details.

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

<i>(thousands of dollars)</i>	Three months ended December 31	
	2013	2012
		<i>(Restated)</i>
Cash provided by operating activities	\$ 84,536	\$ 66,012
Share of profit of joint venture	625	566
Distribution from joint venture	(530)	(449)
Realized gains on sale of marketable securities	80	1,502
Deferred leasing costs	1,117	1,676
Net change in non-cash operating items	(37,184)	(19,540)
Expenditures on residential development inventory	3,599	3,096
Amortization expense	(1,008)	(1,194)
Transaction costs	—	56
Non-cash interest expense and change in accrued interest	818	(4,339)
Settlement of restricted share units	1,879	2,396
Convertible debenture interest payable in common shares	5,982	5,240
Costs not capitalized during development period	947	886
Pre-selling costs of residential inventory	61	101
Same property revenue sustaining capital expenditures and leasing costs	(3,523)	(3,533)
Non-controlling interest	(142)	129
Other adjustments	(67)	(231)
AFFO	\$ 57,190	\$ 52,374

Net Operating Income

Net operating income for the three months ended December 31, 2013 increased to \$103.3 million from \$96.8 million for the comparative period of the prior year.

On a comparative period basis, the shopping centre portfolio size decreased by 0.5 million square feet during 2013 due to net property sales, and overall occupancy decreased by a 0.1% during 2013. The decrease in occupancy primarily arises as a result of the Company's development and redevelopment initiatives, as well as the effects of sales of properties with higher occupancies. On a same property – stable basis, occupancy remained unchanged at 97.6% as at December 31, 2013 and December 31, 2012. Even with the decrease in the portfolio size and occupancy, the increase in NOI results from growth in base rent and recoveries from tenants due to increases in rental rates from step-ups and lease renewals, as well as acquisitions and developments coming on line, where average rental rates and recovery terms were higher than the rental rates and recovery terms of disposed properties and closures of spaces for redevelopment.

The three month operating cost recovery margin for same property – stable has increased to 91.6% (December 31, 2012 – 90.8%) primarily due to fewer vacant units throughout the year, and property tax recovery margin has increased to 94.1% (December 31, 2012 – 93.2%) with the decrease in vacant units during the year, offset by an increase in property tax assessments. The improvement in the overall portfolio operating cost recovery margin resulted primarily from the completion and lease up of several development and redevelopment projects.

<i>(thousands of dollars, except other data)</i>	Three months ended December 31	
	2013	2012
Property rental revenue		
Base rent ⁽¹⁾	\$ 98,782	\$ 96,054
Operating cost recoveries	24,705	23,848
Realty tax recoveries	28,882	26,653
Straight-line rent	2,637	2,956
Lease surrender fees	273	102
Percentage rent	1,696	1,446
Prior year operating cost and tax recovery adjustments	1,071	20
Temporary tenants, storage, parking and other	4,164	4,992
Total property rental revenue	162,210	156,071
Property operating costs		
Recoverable operating expenses	28,720	28,430
Recoverable realty tax expenses	31,263	29,866
Prior year operating cost and tax expense adjustments	(45)	(140)
Other operating costs and adjustments	(998)	1,117
Total property operating costs	58,940	59,273
NOI	\$ 103,270	\$ 96,798
NOI margin	63.7%	62.0%
Operating cost recovery percentage	86.0%	83.9%
Tax recovery percentage	92.4%	89.2%

⁽¹⁾ Base rent includes annual minimum rents from gross and semi-gross leases.

Same property – stable NOI increased by 4.2% in the fourth quarter of 2013, compared to the same prior year period, primarily attributed to an increase in occupancy rate to 97.6% from 97.3% as at September 30, 2013. Improved operating cost and realty tax recoveries margins and certain bad debts were recovered, which further contributed to the growth. Offsetting these increases were lower lease termination fees period over period.

	Three months ended December 31		
<i>(thousands of dollars, except for percentages)</i>	% increase	2013	2012
Same property – stable NOI	4.2%	\$ 49,815	\$ 47,808
Same property with incremental redevelopment and expansion NOI		20,522	19,673
Total same property	4.2%	70,337	67,481
Major redevelopment		12,644	11,251
Ground-up development		2,702	2,039
Acquisitions – 2013		1,754	—
Acquisitions – 2012		9,827	7,435
Investment properties classified as held for sale		2,148	1,929
Dispositions – 2013		497	3,494
Dispositions – 2012		—	315
Rental revenue recognized on a straight-line basis		2,637	2,956
Development land		724	(102)
NOI		\$ 103,270	\$ 96,798

For the three months ended December 31, 2013, each region experienced growth in base rent and recoveries from tenants as a result of increases in rental rates due to step-ups and lease renewals, in addition to net acquisitions and developments coming on line, with average rental rates and recovery terms in excess of the rental rates and recovery terms of disposed properties and closures of spaces for redevelopment.

The shopping centre portfolio NOI by segment at the Company's proportionate interest is as follows:

Three months ended December 31, 2013						
<i>(thousands of dollars)</i>	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
Property rental revenue	\$ 70,704	\$ 42,412	\$ 49,086	\$ 162,202	\$ 8	\$ 162,210
Property operating costs	26,540	17,084	15,913	59,537	(597)	58,940
Net operating income	\$ 44,164	\$ 25,328	\$ 33,173	\$ 102,665	\$ 605	\$ 103,270

Three months ended December 31, 2012						
<i>(thousands of dollars)</i>	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
Property rental revenue	\$ 65,813	\$ 40,288	\$ 49,499	\$ 155,600	\$ 471	\$ 156,071
Property operating costs	25,812	16,219	17,123	59,154	119	59,273
Net operating income	\$ 40,001	\$ 24,069	\$ 32,376	\$ 96,446	\$ 352	\$ 96,798

Interest and Other Income

<i>(thousands of dollars)</i>	Three months ended December 31	
	2013	2012
Interest, dividend and distribution income from marketable securities and cash investments	\$ 1,037	\$ 843
Interest income from mortgages and loans receivable	1,729	1,129
Fees and other income	—	13
	\$ 2,766	\$ 1,985

The increase in interest and other income reflects an increase in mortgages and loans receivable and marketable securities activities.

Interest Expense

<i>(thousands of dollars)</i>	Three months ended December 31	
	2013	2012
Mortgages and credit facilities	\$ 17,490	\$ 21,851
Senior unsecured debentures	23,431	19,037
Convertible debentures (cashless)		
Coupon interest (payable in shares)	5,040	4,437
Accretion of discounts on bifurcation for accounting purposes	393	359
Amortization of deferred issue costs	549	444
	5,982	5,240
Interest capitalized to investment properties and residential inventory under development	(5,831)	(6,185)
Total interest expense	\$ 41,072	\$ 39,943

Mortgage and credit facilities interest expense has decreased due to net repayments of mortgages during the year and to a decrease in the weighted average borrowing rate from 5.31% per annum as at December 31, 2012 to 5.21% per annum as at December 31, 2013.

The increase in interest expense for the senior unsecured debentures is primarily due to the issuance of \$450 million principal amount of senior unsecured debentures during 2013, offset by the repayment of \$54 million principal amount during the year ended December 31, 2013, as described in the “Capital Structure and Liquidity - Senior Unsecured Debentures” section of this MD&A. The increase was partially offset by the decrease in the weighted average effective interest rate on senior unsecured debentures from 5.29% per annum as at December 31, 2012 to 5.00% per annum as at December 31, 2013.

The increase in convertible debentures interest expense is a result of net issuances in the year, partially offset by the decrease in the weighted average coupon interest rate from 6.53% per annum as at December 31, 2012 to 6.35% per annum as at December 31, 2013 and repurchases in the NCIB of \$3.0 million and \$3.2 million in 2012 and 2013, respectively (see the “Capital Structure and Liquidity - Convertible Debentures” section of this MD&A).

During the current year, certain development and redevelopment projects were completed resulting in lower capitalized interest. As development and redevelopment projects are completed, they no longer qualify for interest capitalization.

Although the Company has a number of projects in the pre-development stage, during which capitalization is composed primarily of corporate expenses and other soft costs associated with planning activities, the aggregate invested cost of properties in the active development or redevelopment stage and subject to interest capitalization has decreased. As a result, the Company capitalized less interest relative to the aggregate invested cost of properties in ongoing development and redevelopment projects.

Corporate Expenses

	Three months ended December 31			
<i>(thousands of dollars, except for percentages)</i>	2013		2012	
Salaries, wages and benefits	\$	6,893	\$	6,071
Non-cash compensation		695		708
Other corporate costs		2,605		2,959
		10,193		9,738
Amounts capitalized to investment properties under development and redevelopment, residential inventory and deferred leasing costs		(2,995)		(3,702)
	\$	7,198	\$	6,036
Corporate expenses, excluding non-cash compensation				
As a percentage of rental revenue		4.0%		3.5%
As a percentage of total assets		0.34%		0.30%

The overall level of corporate expenses has increased by 19.3% for the three months ended December 31, 2013, as compared to the same prior year period, primarily as a result of increased incentive compensation coupled with a decrease in capitalized corporate expenses.

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 and residential inventory, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to investment properties. During each of the fourth quarters of 2013 and 2012 respectively, approximately 31.5% and 41.0% of compensation-related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects and residential inventory). Amounts capitalized are based on specific leasing activities and development projects underway. During the current year, certain development and redevelopment projects were completed resulting in lower capitalized corporate expenses. However, the Company has a number of projects in the pre-development stage for which corporate expenses are being capitalized. The timing of current year completion of development and redevelopment projects and the Company's current level of pre-development activity is commensurate with the decrease in the level of corporate expenses capitalized compared to the comparative period.

Other Gains (Losses) and (Expenses)

	Three months ended December 31					
	2013			2012		
<i>(thousands of dollars)</i>	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	\$ 80	\$ 80	\$ 80	\$ 1,502	\$ 1,502	\$ 1,502
Change in cumulative unrealized (losses) gains on marketable securities classified as FVTPL	149	149	—	1,082	1,082	—
Losses on settlement of debt	(29)	(29)	—	(4,123)	(4,123)	—
Unrealized gains (losses) on hedges	11	11	—	(23)	(23)	—
Gain on foreign currency exchange	—	—	—	3	3	3
Transaction costs	—	—	—	(56)	—	—
Pre-selling costs of residential inventory	(61)	(61)	—	(100)	(100)	—
Investment properties – selling costs	(573)	—	—	(257)	—	—
	\$ (423)	\$ 150	\$ 80	\$ (1,972)	\$ (1,659)	\$ 1,505

The loss on settlement of debt in the three months ended December 31, 2012 primarily relates to the \$2.0 million loss in connection with the redemption of the \$44.1 million principal amount outstanding of the 5.36% Series E senior unsecured debentures, which represents the difference between the carrying value and the consideration paid. The remaining \$2.1 million relates to penalties on the prepayment on mortgages.

The gains and losses on hedges represent the change in fair value for those derivatives to which the Company does not apply hedge accounting, as well as the ineffectiveness of those hedges to which the Company applies hedge accounting.

Investment properties – selling costs were incurred on dispositions of properties.

Income Taxes

	Three months ended December 31	
	2013	2012
<i>(thousands of dollars)</i>		
Deferred income taxes	\$ 8,506	\$ 11,324

Deferred tax expense decreased compared to the same prior year period primarily due to the decrease in the fair value adjustment of investment properties as compared to the prior year period.

Mortgages and Credit Facilities

In the three months ended December 31, 2013, the Company topped-up \$46.6 million of mortgage financings with terms less than five years relating to three properties with a weighted average interest rate of 3.69%.

In the three months ended December 31, 2013, the Company repaid \$46.3 million amount of mortgage financing relating to four properties with a weighted average interest rate of 6.48%.

Cash Flows

	Three months ended December 31	
<i>(thousands of dollars)</i>	2013	2012
Adjusted cash flow from operating activities	\$ 50,951	\$ 49,568
Net change in non-cash operating items	37,184	19,540
Expenditures on residential development inventory	(3,599)	(3,096)
Cash provided by operating activities	84,536	66,012
Cash used in financing activities	(52,930)	(18,709)
Cash used in investing activities	(104,678)	(174,701)
Net decrease in cash and cash equivalents	\$ (73,072)	\$ (127,398)

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, the timing of receipts and payments on working capital items, offset by increased expenditures on residential development inventory.

Financing Activities

The increase in cash used in financing activities is the result of lower volume of debt and equity issuances in 2013 compared to 2012, offset by higher repayments of debt in 2012 than in 2013. These activities are more fully described in the "Capital Structure and Liquidity" section of this MD&A.

Investing Activities

The decrease in cash used in investing activities results from decreased investment property acquisition activity and decreased capital expenditure on the portfolio during the fourth quarter of 2013, offset by the additional investments in loans and mortgages receivable and a decrease in net proceeds from property dispositions during the fourth quarter of 2013 compared to 2012. 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, 2013. Management believes that the policies that are most subject to estimation and Management's judgment 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 that 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 Black-Scholes model.

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 loans, mortgages and credit facilities payable, senior unsecured and convertible debentures payable, loans and mortgages receivable, marketable securities and derivatives. The fair values of the convertible debentures and marketable securities are based on quoted market prices. The fair values of the other financial instruments are calculated using internally developed models as follows:

- Mortgages and credit facilities payable are calculated based on current market rates plus risk-adjusted spread on discounted cash flows.
- Senior unsecured debentures are based on closing bid risk-adjusted spreads and current underlying Government of Canada bond yields on discounted cash flows, also incorporating interest rate quotations provided by financial institutions
- Derivative instruments are determined using present value forward pricing and swap calculations at interest rates that reflect current market conditions.
- Loans and mortgages receivable are calculated based on current market rates plus borrower level risk-adjusted spreads on discounted cash flows, adjusted for allowances for non-payment and collateral related risk.

Estimates of risk-adjusted credit spreads applicable to a specific financial instrument and its underlying collateral could vary and result in a different disclosed fair value.

A 1% increase or decrease in the interest rate used to determine the fair value of the mortgages payable would change the fair value of the mortgages payable by \$43 million and \$45 million, respectively. Similarly, a 1% increase or decrease in the interest rate used to determine the fair value of the senior unsecured debentures would change the fair value by \$97 million and \$104 million, respectively, and for the derivative instruments would change the fair value by \$11 million and \$12 million, respectively. For loans and mortgages receivable, a 1% increase or decrease in the interest rate used to determine the fair value would result in a change of \$4 million and \$4 million, respectively.

Financial instruments

The critical judgments inherent in the application of the policies with respect to financial instruments include applying the criteria to designate financial instruments as FVTPL, which are acquired principally for the purpose of selling in the short-term.

Hedge accounting

Where the Company undertakes to apply cash flow hedge accounting, it must determine whether such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Income Taxes

The Company exercises judgment 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.

For the determination of deferred tax assets and liabilities where investment property is measured using the fair value model, the presumption is that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time.

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.

FUTURE ACCOUNTING POLICY CHANGES

Refer to Note 4 to the consolidated financial statements for the year ended December 31, 2013 for details on future accounting policy changes.

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 fair value through profit or loss ("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 would no longer be bifurcated and accounted for separately under IFRS 9.

A new general hedge accounting standard, part of IFRS 9 (2013), was issued in November 2013 making early adoption available for IFRS 9. The new standard does not change the types of hedging relationships or the requirement to measure and recognize ineffectiveness fundamentally; however, more hedging strategies that are used for risk management will qualify for hedge accounting.

IFRS 9 has been deferred and will be effective no earlier than annual periods beginning on or after January 1, 2017, with no new required adoption date known. However, the Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

Levies

IFRIC Interpretation 21, "Levies" ("IFRIC 21") clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The IFRIC does not apply to accounting for income taxes or fines and penalties. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact of the adoption of this interpretation on its consolidated financial statements.

CONTROLS AND PROCEDURES

As at December 31, 2013, the Chief Executive Officer and the Chief Financial Officer of the Company, with the assistance of other staff and Management of the Company 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 1992 framework published by the Committee of Sponsoring Organizations of the Treadway Commission (the "1992 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, 2013, 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, 2013 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. 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 some of the actions it takes to mitigate these risks are outlined below. The Company's most current Annual Information Form from time to time 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 position 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 position 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 position and its results of operations.

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 position 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.

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 \$0.8 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between December 31, 2013 and December 31, 2015 at a weighted average coupon interest rate of 5.52%. 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 \$7.8 million. In addition, at December 31, 2013, the Company had \$29.8 million principal amount of debt (or 2% of the Company's aggregate mortgage 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 judgment, circumstances so warrant. 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 debenture holder's ability to sell its senior unsecured debentures and may affect the Company's access to financial markets and its cost of borrowing.

Acquisition, Expansion, Development, Redevelopment and Strategic Dispositions

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 position 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.

The Company undertakes strategic property dispositions from time to time in order to recycle its capital and maintain an optimal portfolio composition. The Company may be subject to unexpected costs or liabilities related to such dispositions, which could adversely affect the Company's financial position and results of operations and its ability to meet its obligations.

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 are expected to play a more significant role in consumer preferences and shopping patterns in the future, which may 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 position and results of operations.

Residential Development Sales and Leasing

First Capital Realty is and expects to be increasingly involved in the development of mixed-use properties that include residential condominiums and rental apartments. These developments are often carried out with an experienced residential developer as the Company's partner. Purchaser demand for residential condominiums is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as employment levels, availability of financing for home buyers, interest rates, consumer confidence, levels of new and existing homes for sale, demographic trends and housing demand. As a residential landlord in its properties that include rental apartments, First Capital Realty is subject to the risks inherent in the multi-unit residential rental property industry. In addition to the risks highlighted above, these include exposure to private individual tenants (as opposed to commercial tenants in the Company's retail properties), fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in operating costs including the costs of utilities (residential leases are often "gross" leases under which the landlord is not able to pass on costs to its residents), the imposition of increased taxes or new taxes and capital investment requirements.

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 position. 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 position or results of operations.

Partnerships

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, "partnerships"). 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 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 partners to obtain such resolution.

Significant Shareholders

As of December 31, 2013, 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 and related entities, beneficially owned approximately 45.3% of the outstanding Common Shares. Gazit-Globe is a public company listed on the Toronto Stock Exchange, 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 also the Executive Vice Chairman of Gazit-Globe. Mr. Segal and his spouse directly and indirectly, own shares of the holding company (Norstar Holdings Inc., a corporation listed on the Tel-Aviv Stock Exchange) which controls Gazit-Globe and they have entered into a shareholders' agreement with Mr. Katzman under which they have agreed, among other things, to vote for certain nominees to, and to constitute, the board of this holding company in an agreed manner, and to certain participation rights in the event that either Mr. Katzman or Mr. Segal and his spouse wish to sell any of their shares of this holding company. In addition, Mr. Katzman has been given voting control over some shares held by Mr. Segal's spouse in another entity which itself owns shares of the holding company under the terms of a power of attorney. Mr. Segal directly owns 720,000 common shares of Gazit-Globe, representing approximately 0.4% of the outstanding common shares of Gazit-Globe.

In addition, as of December 31, 2013, Alony-Hetz beneficially owned approximately 8.5% of the Common Shares. Alony-Hetz and Gazit-Globe have entered into a shareholders' agreement pursuant to which, among other terms, (i) Gazit-Globe 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-Globe as the remaining directors 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 78.6% of the common shares reported as beneficially owned by the Gazit Group (representing approximately 35.6% 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 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 an effective 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.

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.

Investments Subject to Credit and Market Risk

The Company occasionally extends credit to third parties in connection with partnerships, 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 the overall market conditions, business failure, and/or other nonperformance by the counterparties or investees.

Management's Responsibility

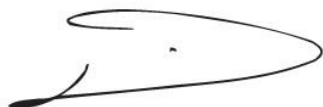
The Company's consolidated financial statements and Management's Discussion and Analysis ("MD&A") are the responsibility of Management and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of consolidated financial statements and the 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 February 20, 2014.

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.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities, including the preparation and presentation of the consolidated financial statements and all the information in the MD&A and the maintenance of financial and operating systems, through its Audit Committee, that 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, Ernst & Young LLP, to satisfy itself that Management's responsibilities are properly discharged and to review and report to the Board of Directors 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.



Dori J. Segal
President and Chief Executive Officer
Toronto, Ontario
February 20, 2014



Karen H. Weaver, CPA, ICD.D
Executive Vice President and Chief Financial Officer

Independent Auditors' 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, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in equity and 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.

Auditors' 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 audits 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 auditors' 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 auditors consider 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.

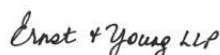
Opinion

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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated balance sheet as at January 1, 2012 (prior to adjustments described in Note 3 to the consolidated financial statements) was audited by another auditor who expressed an unmodified opinion on those financial statements on March 8, 2012.

As part of our audits of the consolidated financial statements of First Capital Realty Inc. for the year ended December 31, 2013, we also audited the adjustments described in Note 3 that were applied to restate the consolidated balance sheet as at January 1, 2012. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the consolidated balance sheet as at January 1, 2012 other than with respect to the adjustments described in Note 3 and, accordingly, we do not express an opinion or any other form of assurance on the consolidated balance sheet as at January 1, 2012.



Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
February 20, 2014

Independent Auditors' Report

To the Shareholders of First Capital Realty Inc.

We have audited the accompanying consolidated financial statement of First Capital Realty Inc., which comprise the consolidated balance sheet as at January 1, 2012, before the effects of the adjustments to retrospectively apply the changes in accounting discussed in Note 3 to the consolidated financial statements (the consolidated balance sheet before the effects of the adjustments discussed in Note 3 to the consolidated financial statements is not presented herein), and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statement

Management is responsible for the preparation and fair presentation of the consolidated financial statement in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of a consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statement based on our audit. We conducted our audit 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, 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 statement 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 statement.

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

Opinion

In our opinion, such consolidated financial statement, before the effects of the adjustments to retrospectively apply the changes in accounting discussed in Note 3 to the consolidated financial statements, presents fairly, in all material respects, the financial position of First Capital Realty Inc. as at January 1, 2012 in accordance with International Financial Reporting Standards.

Other Matter

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the changes in accounting discussed in Note 3 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by another auditor.

The image shows a handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
March 8, 2012

Consolidated Balance Sheets

<i>(thousands of Canadian dollars)</i>	Notes	December 31 2013	December 31 2012	January 1 2012
			<i>(Restated – Note 3)</i>	<i>(Restated – Note 3)</i>
ASSETS				
Non-Current Assets				
Real Estate Investments				
Investment properties – shopping centres	5	\$ 6,989,055	\$ 6,567,741	\$ 5,669,140
Investment properties – development land	5	147,497	125,276	98,554
Investment in joint venture	6	38,166	37,893	32,920
Loans, mortgages and other real estate assets	7	71,781	20,553	47,267
Total real estate investments		7,246,499	6,751,463	5,847,881
Other non-current assets	10	9,521	27,088	8,330
Total non-current assets		7,256,020	6,778,551	5,856,211
Current Assets				
Cash and cash equivalents	30(d)	4,975	64,015	1,840
Loans, mortgages and other real estate assets	8	77,449	46,591	43,271
Residential development inventory		21,569	33,292	18,941
Amounts receivable	9	27,044	22,566	14,293
Other assets	10	53,699	33,136	46,171
		184,736	199,600	124,516
Investment properties classified as held for sale	5(d)	155,499	283,466	96,674
Total current assets		340,235	483,066	221,190
Total assets		\$ 7,596,255	\$ 7,261,617	\$ 6,077,401
LIABILITIES				
Non-Current Liabilities				
Mortgages and credit facilities	12	\$ 1,089,969	\$ 1,327,980	\$ 1,362,073
Senior unsecured debentures	13	1,762,026	1,469,073	1,140,594
Convertible debentures	14	374,012	318,794	263,500
Other liabilities	15	21,476	60,681	11,629
Deferred tax liabilities	23	410,278	357,169	278,170
Total non-current liabilities		3,657,761	3,533,697	3,055,966
Current Liabilities				
Current portion of mortgages and credit facilities	12	254,367	227,671	184,542
Current portion of senior unsecured debentures	13	99,927	—	100,000
Current portion of convertible debentures		—	—	18,828
Accounts payable and other liabilities	16	238,945	210,112	182,742
		593,239	437,783	486,112
Mortgages on investment properties classified as held for sale	5(d), 12	22,247	41,583	22,267
Total current liabilities		615,486	479,366	508,379
Total liabilities		4,273,247	4,013,063	3,564,345
EQUITY				
Shareholders' equity	17	3,319,370	3,245,168	2,511,440
Non-controlling interest	27	3,638	3,386	1,616
Total equity		3,323,008	3,248,554	2,513,056
Total liabilities and equity		\$ 7,596,255	\$ 7,261,617	\$ 6,077,401

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

		Year ended December 31	
<i>(thousands of Canadian dollars, except per share amounts)</i>	Notes	2013	2012
			<i>(Restated – Note 3)</i>
Property rental revenue		\$ 631,605	\$ 579,259
Property operating costs		233,595	210,126
Net operating income	18	398,010	369,133
Other income and expenses			
Interest and other income	19	10,501	8,706
Interest expense	20	(164,909)	(160,916)
Corporate expenses	21	(25,211)	(23,417)
Abandoned transaction costs		(2,231)	(2,095)
Amortization expense		(3,873)	(4,102)
Share of profit from joint venture	6	2,334	7,287
Other gains (losses) and (expenses)	22	(4,280)	(6,080)
Increase in value of investment properties, net	5	56,086	286,950
		(131,583)	106,333
Income before income taxes		266,427	475,466
Deferred income taxes	23	51,418	82,158
Net income		\$ 215,009	\$ 393,308
Net income attributable to:			
Common shareholders		\$ 214,863	\$ 392,923
Non-controlling interest	27	146	385
		\$ 215,009	\$ 393,308
Net income per share attributable to common shareholders:			
Basic	24	\$ 1.03	\$ 2.08
Diluted	24	\$ 1.01	\$ 1.98

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

<i>(thousands of Canadian dollars)</i>	Notes	Year ended December 31	
		2013	2012
			<i>(Restated – Note 3)</i>
Net income		\$ 215,009	\$ 393,308
Other comprehensive income (loss)			
Items that may be reclassified subsequently to net income			
Unrealized losses on available-for-sale marketable securities		(254)	(557)
Reclassification of net losses (gains) on available-for-sale marketable securities to net income		58	(384)
Unrealized gains (losses) on cash flow hedges		4,392	(1,890)
Reclassification of net losses on cash flow hedges to net income		949	330
		5,145	(2,501)
Deferred tax expense (recovery)	23	1,372	(607)
Other comprehensive income (loss)	29	3,773	(1,894)
Comprehensive income		\$ 218,782	\$ 391,414
Comprehensive income attributable to:			
Common shareholders		\$ 218,636	\$ 391,029
Non-controlling interest		146	385
		\$ 218,782	\$ 391,414

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

<i>(thousands of Canadian dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
December 31, 2012		<i>(Note 29(b))</i>	<i>(Note 17(a))</i>	<i>(Note 17(b))</i>			
As reported	\$ 778,540	\$ (4,180)	\$ 2,426,836	\$ 44,416	\$ 3,245,612	\$ 17,992	\$ 3,263,604
Impact of adoption of IFRS 10 and IFRS 11 <i>(Note 3)</i>	(444)	—	—	—	(444)	(14,606)	(15,050)
Balance, at January 1, 2013, as restated	778,096	(4,180)	2,426,836	44,416	3,245,168	3,386	3,248,554
Changes during the year:							
Net income	214,863	—	—	—	214,863	146	215,009
Issuance of common shares and warrants, net of issue costs	—	—	1,247	—	1,247	—	1,247
Dividends	(175,092)	—	—	—	(175,092)	—	(175,092)
Convertible debentures, net	—	—	19,054	233	19,287	—	19,287
Options, deferred share units and restricted share units, net	—	—	8,496	1,628	10,124	—	10,124
Expiry of warrants	—	—	1,677	(1,677)	—	—	—
Other comprehensive income	—	3,773	—	—	3,773	—	3,773
Contributions from non-controlling interest	—	—	—	—	—	106	106
December 31, 2013	\$ 817,867	\$ (407)	\$ 2,457,310	\$ 44,600	\$ 3,319,370	\$ 3,638	\$ 3,323,008

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

<i>(thousands of Canadian dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
December 31, 2011		<i>(Note 29(b))</i>	<i>(Note 17(a))</i>	<i>(Note 17(b))</i>			
As reported	\$ 544,738	\$ (2,286)	\$ 1,928,583	\$ 40,813	\$ 2,511,848	\$ 10,475	\$ 2,522,323
Impact of adoption of IFRS 10 and IFRS 11 <i>(Note 3)</i>	(408)	—	—	—	(408)	(8,859)	(9,267)
Balance, at January 1, 2012 as restated	544,330	(2,286)	1,928,583	40,813	2,511,440	1,616	2,513,056
Changes during the year:							
Net income	392,923	—	—	—	392,923	385	393,308
Issuance of common shares and warrants, net of issue costs	—	—	382,803	1,677	384,480	—	384,480
Dividends	(159,157)	—	—	—	(159,157)	—	(159,157)
Convertible debenture, net	—	—	104,890	(67)	104,823	—	104,823
Options, deferred share units and restricted share units, net	—	—	10,560	1,993	12,553	—	12,553
Other comprehensive loss	—	(1,894)	—	—	(1,894)	—	(1,894)
Contributions from non-controlling interest	—	—	—	—	—	1,385	1,385
December 31, 2012	\$ 778,096	\$ (4,180)	\$ 2,426,836	\$ 44,416	\$ 3,245,168	\$ 3,386	\$ 3,248,554

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

		Year ended December 31	
<i>(thousands of Canadian dollars)</i>	Notes	2013	2012
CASH FLOWS PROVIDED BY (USED IN):		<i>(Restated – Note 3)</i>	
OPERATING ACTIVITIES			
Net income		\$ 215,009	\$ 393,308
Adjustments for:			
Increase in value of investment properties, net	5	(56,086)	(286,950)
Interest expense	20	164,909	160,916
Capitalized interest	20	22,528	23,943
Cash interest paid	20	(164,532)	(160,167)
Amortization expense		3,873	4,103
Share of profit of joint venture	6	(2,334)	(7,287)
Items not affecting cash and other items	30(a)	47,556	72,331
Deferred leasing costs		(5,095)	(5,108)
Distribution from joint venture		2,062	2,259
Net change in non-cash operating items	30(b)	(287)	10,009
Expenditures on residential development inventory		(14,984)	(14,351)
Cash provided by operating activities		212,619	193,006
FINANCING ACTIVITIES			
Mortgage financings and credit facilities			
Borrowings, net of financing costs		45,804	249,378
Mortgage financings and loans on residential development inventory		7,689	14,776
Principal installment payments		(38,904)	(39,776)
Repayments		(220,722)	(395,473)
Issuance of senior unsecured debentures, net of issue costs	13	445,765	470,813
Repayment of senior unsecured debentures	13	(55,350)	(247,282)
Issuance of convertible debentures, net of issue costs	14	55,497	122,883
Purchase of convertible debentures	14(b)	(3,430)	(3,315)
Issuance of common shares and warrants, net of issue costs		9,743	287,402
Payment of dividends		(174,126)	(150,859)
Net contributions from non-controlling interest		106	1,385
Cash provided by financing activities		72,072	309,932
INVESTING ACTIVITIES			
Acquisition of shopping centres	5	(177,539)	(387,364)
Acquisition of development land	5	(36,441)	(37,647)
Net proceeds from property dispositions	5(d)	191,274	258,284
Capital expenditures on investment properties		(261,430)	(315,666)
Changes in investing-related prepaid expenses and other liabilities		(9,407)	10,488
Changes in loans, mortgages and other real estate assets	30(c)	(50,188)	31,142
Cash used in investing activities		(343,731)	(440,763)
Net increase (decrease) in cash and cash equivalents		(59,040)	62,175
Cash and cash equivalents, beginning of the year		64,015	1,840
Cash and cash equivalents, end of the year	30(d)	\$ 4,975	\$ 64,015

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 a corporation existing under the laws of Ontario and engages in the business of acquiring, developing, redeveloping, owning and managing well-located, high quality urban retail-centered properties. 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.

(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 the current year are described in Note 3 - “Change in Accounting Policies” and for future accounting periods are described in Note 4, “Future Accounting Policy Changes”. The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional balance sheet at the beginning of the comparative period when it changes an accounting policy retrospectively in its financial statements; however, the Company is not required to provide all of the related note disclosures required by other IFRSs associated with such balance sheet. An additional consolidated balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies (Note 3).

Comparative information in the financial statements includes reclassification of certain balances to provide consistency with current period classification. The current period classification more appropriately reflects the Company's core operations and is not material to the financial statements as a whole.

Additionally, 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 and Ottawa; Central which includes the Company's Ontario operations excluding Ottawa; 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. On July 1, 2013, the Company completed a management realignment of its Ottawa properties from the Central region to the Eastern region that resulted in a change to these segments. Prior periods have been restated to reflect this change. This change in segment reporting did not have an impact on the Company's consolidated results for any periods.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company as well as the entities that are controlled by the Company (subsidiaries). The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. Inter-company transactions, balances and other transactions between consolidated entities are eliminated.

(d) Business combinations

At the time of acquisition of property, the Company considers whether the acquisition represents the acquisition of a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired. The Company's policy is to use the acquisition method for common control business combinations for accounting purposes.

The cost of a business combination is measured as the aggregate of the consideration transferred at acquisition date fair value. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The Company recognizes any contingent consideration to be transferred by the Company at their acquisition date fair value. Goodwill is initially measured at cost, being the excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed. Acquisition-related costs are expensed in the period incurred.

When the acquisition of property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized. Acquisition-related costs are capitalized to investment property at the time the acquisition is completed.

(e) Investments in joint arrangements

The Company accounts for its investment in a joint venture using the equity method and accounts for investments in joint operations by recognizing the Company's direct rights to assets, obligations for liabilities, revenues and expenses. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of its net assets, less distributions received and less any impairment in the value of individual investments. The Company's income statement reflects the share of the joint venture's results after tax. Refer to Note 3, "Change in Accounting Policies" for further discussion.

(f) 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 consolidated balance sheets as follows:

(i) Shopping centres

Shopping centres 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.

(ii) Development land

Development land 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.

(iii) Investment Properties Classified as Held for Sale

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, generally within one year. Upon designation as held for sale, the investment property continues to be measured at fair value and is presented separately on the consolidated balance sheets.

Valuation method

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 management to make estimates and assumptions that affect the values presented, such that actual values in sales transactions may differ from those presented.

The Company has three approaches to determine the fair value of an investment property at the end of each reporting period:

1. External appraisals – by an independent national appraisal firm, according to professional appraisal standards and IFRS. On an annual basis, the Company has an annual minimum threshold of approximately 15% of the portfolio requiring external appraisal.
2. Internal appraisals – by certified staff appraisers employed by the Company, according to professional appraisal standards and IFRS.
3. Value updates – performed by certified staff appraisers and primarily consisting of reviewing the key assumptions from previous appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

The selection of the approach for each property is made based upon the following criteria:

- Property type – this includes an evaluation of a property's complexity, stage of development, time since acquisition, and other specific opportunities or risks associated with the property. Stable properties and recently acquired properties will generally receive a value update, while properties under development will typically be valued using internal or external appraisals until completion.
- Market risks – specific risks in a region or a trade area may warrant a full internal or external appraisal for certain properties.
- Changes in overall economic conditions – significant changes in overall economic conditions may increase the number of external or internal appraisals performed.
- Business needs – financings or acquisitions and dispositions may require an external appraisal.

The Company makes no adjustments for portfolio premiums and discounts, nor for any value attributable to the Company's management platform, as required by IFRS.

Shopping centres are appraised primarily based on stabilized cash flows from existing tenants with the property in its existing state, since purchasers typically focus on expected income. External and internal 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). Value updates use the direct capitalization method.

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 on either a per acre basis or on a basis of per square foot buildable. Such values are applied to the Company's properties after adjusting for factors specific to the site, including its location, zoning, servicing and configuration.

The cost of development properties includes direct development costs, including internal development and initial leasing 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, less any interest income earned on funds not yet employed in construction funding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

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.

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

(g) Residential development inventory

Residential development inventory which is developed for sale is recorded at the lower of cost and estimated net realizable value. Residential development inventory is 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 inventory 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 inventory where no development activity is taking place. Residential development inventory is presented separately on the consolidated balance sheets as current assets. They are classified as current because the Company intends to sell them in the normal operating cycle.

(h) Taxation

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 dates.

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 basis. 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 forward 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. For the determination of deferred tax assets and liabilities where investment property is measured using the fair value model, the presumption is that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time.

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

(i) 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 remeasured 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.

(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 has not transferred 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 that 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 an 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 development inventory

The Company's residential development inventory comprises the construction and sale of residential condominium units. The Company recognizes revenue from the sale of residential units upon substantial completion. The Company considers substantial completion for each residential unit to be the point in which the purchaser has paid all amounts due on interim closing, has the right to occupy the premises, has demonstrated collectability of the balance due at closing, and has received an undertaking from the Company to be assigned title in due course, or when title has transferred.

(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 sheets 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 value is negative. Hedge accounting is discontinued prospectively when the hedging relationship is terminated, when the instrument no longer qualifies as a hedge, or when the hedged 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 that 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

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

	Classification	Measurement
Financial assets		
Marketable securities designated as AFS	AFS	Fair value
Derivative assets	FVTPL	Fair value
Loans and mortgages receivable	Loans and receivables	Amortized cost
Marketable securities designated as FVTPL	FVTPL	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Loans receivable from sales of residential inventory	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 other 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 sheets 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 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).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(m) Cash and cash equivalents

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

(n) Critical judgments in applying accounting policies

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

(i) Investment properties

In applying the Company's policy with respect to investment properties, judgment 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. Judgment is also applied in determining the extent and frequency of external and internal appraisals in order to estimate fair values.

(ii) Financial instruments

The critical judgments inherent in the application of the policies with respect to financial instruments include applying the criteria to designate financial instruments as FVTPL, which are acquired principally for the purpose of selling in the short-term.

(iii) Hedge accounting

Where the Company undertakes to apply cash flow hedge accounting, it must determine whether such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(iv) Income taxes

The Company exercises judgment 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

Judgment 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.

(o) 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 reporting periods. Actual results could differ from those estimates. The estimates and assumptions that the Company considers critical include those underlying the valuation of investment properties, as set out above, which describes the process by which investment properties are valued, and the determination of which properties are externally and internally appraised and how often.

Additional critical accounting estimates and assumptions include those used for determining the values of financial instruments for disclosure purposes (Note 26), 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 17).

3. CHANGE IN ACCOUNTING POLICIES

The Company has adopted each of the standards below on January 1, 2013:

(a) Consolidated financial statements and joint arrangements

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 should be included in the consolidated financial statements of the Company. Control exists when an entity is exposed, or has rights, to variable returns from its investment in another entity, and has the power to make relevant decisions regarding the operating, financing and investing activities of the other entity to affect those returns. The standard also sets out the accounting requirements for the preparation of consolidated financial statements. The standard has been applied retrospectively to the prior periods presented.

IFRS 11 replaced 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 by recognizing the venturer's right to assets and obligations for liabilities (i.e., similar to proportionate consolidation). The standard has been applied retrospectively to the prior periods presented.

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.

Prior to January 1, 2013, the Company's interests in joint arrangements for which it had joint control were accounted for using the proportionate consolidation method. The Company combined its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's consolidated financial statements.

The Company has assessed the nature of its joint arrangements and determined them to be joint operations, with the exception of a joint arrangement classified as a joint venture. In addition, certain arrangements previously considered subsidiaries are now treated as joint operations. The Company recognizes its interest in the joint venture's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share of its net assets, less distributions received and less any impairment in value of individual investments.

The impact of the Company's adoption of IFRS 10 and IFRS 11 on the consolidated balance sheets as at January 1, 2012 and December 31, 2012 is as follows:

<i>(thousands of Canadian dollars)</i>			
Increase (decrease)		December 31, 2012	January 1, 2012
ASSETS			
Non-Current Assets			
Investment properties – shopping centres		\$ (54,262)	\$ (45,474)
Investment properties – development land		(8,061)	(2,291)
Investment in joint venture		37,893	32,920
Other non-current assets		6,079	845
Total non-current assets		(18,351)	(14,000)
Current Assets			
Cash and cash equivalents		(6,140)	(1,235)
Residential development inventory		(32,599)	(18,225)
Other current assets		(85)	(282)
Total current assets		(38,824)	(19,742)
Total assets		\$ (57,175)	\$ (33,742)
LIABILITIES			
Non-Current Liabilities			
Mortgages and credit facilities		\$ (10,827)	\$ (14,890)
Other non-current liabilities		(1,582)	(455)
Total non-current liabilities		(12,409)	(15,345)
Current Liabilities			
Current portion of mortgages and credit facilities		(15,279)	(396)
Accounts payable and other liabilities		(14,437)	(8,734)
Total current liabilities		(29,716)	(9,130)
Total liabilities		(42,125)	(24,475)
Non-controlling interest		(14,606)	(8,859)
Shareholders' equity		(444)	(408)
Total liabilities and equity		\$ (57,175)	\$ (33,742)

The impact of the Company's adoption of IFRS 10 and IFRS 11 on the audited consolidated statements of income for the year ended December 31, 2012 is as follows:

<i>(thousands of Canadian dollars)</i>		Increase (decrease)
Net operating income		
Property rental revenue	\$	(3,837)
Property operating costs		(1,433)
Net operating income		(2,404)
Change in value of investment properties, net		(4,901)
Share of profit from joint venture		7,287
Other items, net		(18)
Net income attributable to common shareholders	\$	(36)

There is no material impact on per share amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The impact of the Company's adoption of IFRS 10 and IFRS 11 on the consolidated statement of cash flows for the year ended December 31, 2012 is as follows:

<i>(thousands of Canadian dollars)</i>		Increase (decrease)
Cash provided by operating activities	\$	13,242
Cash used in financing activities		(20,477)

(b) Fair value measurement

The Company has adopted IFRS 13 prospectively from January 1, 2013. IFRS 13 provides a single standard for fair value, replacing the fair value concepts that were previously included in many other standards, and also clarifies various requirements with regard to the appropriate measurement and disclosure of fair value and its underlying inputs. The standard defines fair value, provides guidance on its determination and outlines required disclosures about fair value measurements, but does not change the requirements about the items that should be measured and disclosed at fair value.

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 consolidated balance sheets as follows:

(i) Shopping centres

Shopping centres 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.

(ii) Development land

Development land 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 significant considerations under IFRS 13, which the Company has made with regard to how investment property is measured and the requirement for additional disclosures are as follows:

- IFRS 13 defines the fair value of an asset as an "exit price", specifically "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The underlying concept of "exit price" of an investment property is similar to the "exchange value" fair value definition previously used under IAS 40, "Investment Property" ("IAS 40").
- For non-financial assets, including investment properties, IFRS 13 refers to the "highest and best use", which is the use to be assumed by market participants that maximizes the value of an asset. Management has determined that no material change in the value of investment properties is required as a result of the application of this standard.
- The fair value measurement assumes that the hypothetical sale of the asset, or "exit transaction", takes place in the "principal market" with the greatest volume and highest level of activity for the asset or liability. Alternatively, in the absence of such a principal market, the transaction should take place in the "most advantageous market". Management has determined that no material change in the value of investment properties is required as a result of the application of this standard.
- The fair value hierarchy under IFRS 13 differs from that under IAS 40. IAS 40 defined a fair value hierarchy based on valuation techniques. In IFRS 13, fair value measurements are instead categorized into a three-level hierarchy based on the type of inputs utilized in determining fair value using valuation techniques.

The Company's investment property is measured using Level 3 inputs, as not all significant inputs are 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 investment property, and are developed based on the best information available in the circumstances (which includes the reporting entity's own data).

- e) Additionally, disclosure requirements have been significantly expanded to provide users of financial statements with detailed quantitative and qualitative information about assumptions made and processes used when measuring the fair value (Note 5).

The application of IFRS 13 has not materially impacted the fair value measurements of the Company's investment properties.

Shopping centres valuation

Shopping centres are appraised primarily based on stabilized cash flows from existing tenants with the property in its existing state, since purchasers typically focus on expected income. External and internal 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). Value updates use the direct capitalization method.

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.

During the year ended December 31, 2013, approximately 16% (year ended December 31, 2012 – approximately 35%) of the total fair value of shopping centres was determined through external appraisals. The percentage determined through external appraisal is calculated based on the fair value of the shopping centres in the period the appraisal was performed.

Development land valuation

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 on either a per acre basis or on a basis of per square foot buildable. Such values are applied to the Company's properties after adjusting for factors specific to the site, including its location, zoning, servicing and configuration.

During the year ended December 31, 2013, approximately 17% (year ended December 31, 2012 – approximately 17%) of the total fair value of development land was determined through external appraisals. The percentage appraised is calculated based on the fair value of development land in the period the appraisal was performed.

(c) Amendments to IAS 1

The Company has adopted the amendments to IAS 1, "Presentation of Financial Statements", which introduces the grouping of items presented in OCI. Items that will be reclassified to profit or loss at a future point in time are presented separately from items that will not be reclassified to profit or loss. The amendments affect the presentation of the statement of OCI only and has no impact on the Company's financial position or performance.

4. FUTURE ACCOUNTING POLICY CHANGES

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 fair value through profit or loss (“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 OCI if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9.

A new general hedge accounting standard, part of IFRS 9 (2013), was issued in November 2013. The new standard does not change the types of hedging relationships (i.e., cash flow or fair value hedges) or the requirement to measure and recognize ineffectiveness fundamentally; however, more hedging strategies that are used for risk management will qualify for hedge accounting.

IFRS 9 has been deferred and will be effective no earlier than annual periods beginning on or after January 1, 2017, with no new required adoption date known. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

Levies

IFRIC Interpretation 21, “Levies” (“IFRIC 21”) clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The IFRIC does not apply to accounting for income taxes or fines and penalties. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact of the adoption of this interpretation on its consolidated financial statements.

5. INVESTMENT PROPERTIES

(a) Activity

							December 31, 2013	
<i>(thousands of Canadian dollars)</i>	Central	Eastern	Western	Total	Shopping Centres	Development Land		
Balance at beginning of year	\$ 2,975,141	\$ 1,588,179	\$ 2,413,163	\$ 6,976,483	\$ 6,849,078	\$ 127,405		
Acquisitions	130,481	24,090	70,094	224,665	188,224	36,441		
Capital expenditures	87,439	106,043	67,948	261,430	249,708	11,722		
Initial direct leasing costs	1,957	1,081	2,057	5,095	5,095	—		
Dispositions	(93,231)	(92,401)	(56,559)	(242,191)	(232,486)	(9,705)		
Reclassifications between shopping centres and development land	—	—	—	—	1,528	(1,528)		
Increase in value of investment properties, net	35,287	8,992	11,807	56,086	54,378	1,708		
Straight-line rent and other changes	4,230	3,178	3,075	10,483	10,483	—		
Balance at end of year	\$ 3,141,304	\$ 1,639,162	\$ 2,511,585	\$ 7,292,051	\$ 7,126,008	\$ 166,043		
Investment properties – non-current					\$ 6,989,055	\$ 147,497		
Investment properties – classified as held for sale					136,953	18,546		
Total					\$ 7,126,008	\$ 166,043		

							December 31, 2012	
<i>(thousands of Canadian dollars)</i>	Central	Eastern	Western	Total	Shopping Centres	Development Land		
					<i>(Restated - Note 3)</i>	<i>(Restated - Note 3)</i>		
Balance at beginning of year	\$ 2,550,603	\$ 1,293,308	\$ 2,020,471	\$ 5,864,382	\$ 5,765,828	\$ 98,554		
Acquisitions	289,659	176,108	328,048	793,815	754,869	38,946		
Capital expenditures	154,372	97,576	63,718	315,666	305,288	10,378		
Initial direct leasing costs	2,434	1,282	1,392	5,108	5,108	—		
Dispositions	(168,605)	(16,979)	(117,184)	(302,768)	(297,018)	(5,750)		
Reclassifications between shopping centres and development land	—	—	—	—	13,433	(13,433)		
Increase in value of investment properties, net	140,033	33,226	113,691	286,950	288,240	(1,290)		
Straight-line rent and other changes	6,645	3,658	3,027	13,330	13,330	—		
Balance at end of year	\$ 2,975,141	\$ 1,588,179	\$ 2,413,163	\$ 6,976,483	\$ 6,849,078	\$ 127,405		
Investment properties – non-current					\$ 6,567,741	\$ 125,276		
Investment properties – classified as held for sale					281,337	2,129		
Total					\$ 6,849,078	\$ 127,405		

Investment properties with a fair value of \$3.0 billion (December 31, 2012 – \$3.7 billion) are pledged as security for mortgages and credit facilities.

(b) Investment property valuation

Capitalization rates and stabilized net operating income (“SNOI”), by region, for investment properties – shopping centres are set out in the table below:

Shopping Centres	December 31, 2013			December 31, 2012		
	Fair Value ⁽¹⁾ (C\$ Millions)	SNOI ⁽²⁾ (C\$ millions)	Weighted Average Capitalization Rate	Fair Value ⁽¹⁾ (C\$ Millions)	SNOI ⁽²⁾ (C\$ millions)	Weighted Average Capitalization Rate
				<i>(Restated - Notes 2 & 3)</i>		<i>(Restated - Note 2)</i>
Central Region	\$ 3,021.9	\$ 167.0	5.75%	\$ 2,882.8	\$ 167.0	5.92%
Eastern Region	1,630.7	104.0	6.31%	1,581.6	101.0	6.47%
Western Region	2,473.4	143.0	5.70%	2,384.7	136.0	5.80%
	\$ 7,126.0	\$ 414.0	5.86%	\$ 6,849.1	\$ 404.0	6.00%

⁽¹⁾ Fair value of properties under development includes a deduction for costs to complete of \$95.5 million as at December 31, 2013 (December 31, 2012 – \$148.7 million).

⁽²⁾ SNOI is not a measure defined by IFRS. SNOI reflects long-term, stable property operations, assuming a certain level of vacancy, capital and operating expenditures required to maintain a stable occupancy rate. The average vacancy rates used in determining SNOI for non-anchor tenants generally range from 2% to 5%.

The sensitivity of the fair values of shopping centres to capitalization rates as at December 31, 2013 is set out in the table below:

Capitalization rate (Decrease) increase	Resulting increase (decrease) in value of shopping centres (\$ millions)
(0.75)%	\$ 975
(0.50)%	\$ 620
(0.25)%	\$ 296
0.25%	\$ (272)
0.50%	\$ (523)
0.75%	\$ (754)

Additionally, a 1% increase or decrease in SNOI would result in an increase or decrease, respectively, in fair values of shopping centres by \$71 million. A 1% increase in stabilized net operating income coupled with a 0.25% decrease in capitalization rate would result in an increase in fair values of shopping centres of \$389 million, and a 1% decrease in stabilized net operating income coupled with a 0.25% increase in capitalization rate would result in a decrease in fair values of shopping centres of \$357 million.

(c) Investment properties – Acquisitions

During the years ended December 31, 2013 and 2012, the Company acquired shopping centres and development lands for rental income and future development and redevelopment opportunities as follows:

Year ended December 31		2013		2012	
(thousands of Canadian dollars)	Note	Shopping Centres	Development Land	Shopping Centres	Development Land
				<i>(Restated – Note 3)</i>	
Total purchase price, including acquisition costs		\$ 188,224	\$ 36,441	\$ 754,869	\$ 38,946
Share consideration issued for First Medical	32	—	—	(102,860)	—
Deferred purchase price and ground lease liabilities		—	—	(21,953)	—
Mortgage assumptions and vendor take-back mortgages on acquisitions		(9,957)	—	(229,189)	(1,299)
Difference between principal amount and fair value of assumed mortgage financing		(728)	—	(13,503)	—
Total cash paid		\$ 177,539	\$ 36,441	\$ 387,364	\$ 37,647

On August 8, 2012, a court-approved plan of arrangement for Gazit America Inc. (“Gazit America”) was completed involving the Company and Gazit-Globe Ltd. (“Gazit”). Under the plan of arrangement, the Company acquired the shares of Gazit America’s subsidiaries, ProMed Properties (CA) Inc. and ProMed Asset Management Inc., which together owned and managed all of the medical office and retail properties of Gazit America, and certain property-related inter-company indebtedness owing to Gazit America (hereinafter referred to as the “First Medical acquisition”).

On and before completion of the transaction, Gazit controlled both the Company and Gazit America. The acquired subsidiaries include the portfolio of real estate properties, property management contracts and leasing and management personnel, and represent a business. The transaction was accounted for as a common control business combination using the acquisition method. The reason for the Company to complete the transaction was to acquire from Gazit America 12 medical office and retail properties generally adjacent to existing First Capital Realty properties and a 50% interest in a thirteenth property jointly owned with First Capital Realty.

The acquisition was conducted on an arm’s-length basis at fair value and was determined to have substance due to the involvement of significant non-controlling interests in both the Company and Gazit America, and the process was conducted through independent Board committees and the use of independent business and property valuations and external appraisers. As a result, the assets and liabilities acquired by the Company were measured at their fair value on the closing date of the transaction. As consideration for the acquisition of these assets and assumption of these liabilities, the Company issued 5,461,786 common shares and assumed certain property-related indebtedness. The common shares issued were valued at their quoted trading price at the time of issue. Transaction costs related to the acquisition of approximately \$2.8 million were expensed as incurred (Note 22) and costs related to the issuance of common shares of the Company reduced the value of share capital recorded.

The allocation of the purchase price to the assets acquired and liabilities assumed is as follows:

(thousands of Canadian dollars)	Assets (Liabilities)
Investment property	\$ 225,664
Other assets	3,843
Secured mortgage debt	(122,804)
Other liabilities	(3,639)
Total share consideration paid	\$ 103,064

Had the transaction occurred as at January 1, 2012, the Company's property rental revenue and net income for the year ended December 31, 2012 would have increased by approximately \$14.5 million and \$6.7 million, respectively.

(d) Investment properties classified as held for sale

The Company has certain investment properties that are classified as held for sale. These properties are considered to be non-core assets and are as follows:

<i>(thousands of Canadian dollars, except other data)</i>	December 31, 2013	December 31, 2012
Aggregate fair value	\$ 155,499	\$ 283,466
Mortgages secured by investment properties classified as held for sale	\$ 22,247	\$ 41,583
Weighted average cash interest rate of mortgages secured by investment properties	4.03%	5.55%

For the years ended December 31, 2013 and 2012, the Company sold shopping centres and development land as follows:

Year ended December 31	2013	2012
<i>(thousands of Canadian dollars)</i>	Shopping Centres and Development Land	Shopping Centres and Development Land
		<i>(Restated – Note 3)</i>
Total sales price ⁽¹⁾	\$ 242,191	\$ 302,768
Mortgages assumed and vendor take-back mortgages on sale	(45,788)	(40,524)
Property selling costs	(5,129)	(3,960)
Total cash proceeds	\$ 191,274	\$ 258,284

⁽¹⁾ Total sales price by region is: Central \$93 million (2012 – \$170 million); Eastern \$93 million (2012 – \$15 million); and Western \$56 million (2012 – \$118 million).

(e) Reconciliation of investment properties to total assets

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

<i>As at December 31, 2013 (thousands of Canadian dollars)</i>	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development land ⁽¹⁾	\$ 3,141,304	\$ 1,639,162	\$ 2,511,585	\$ 7,292,051
A reconciliation of shopping centres and development land to total assets is as follows:				
Cash and cash equivalents				4,975
Loans, mortgages and other real estate assets				149,230
Other assets				63,220
Amounts receivable				27,044
Investment in joint venture				38,166
Residential development inventory				21,569
Total assets				\$ 7,596,255

<i>As at December 31, 2012</i> <i>(thousands of Canadian dollars) (Restated – Notes 2 and 3)</i>	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development land ⁽¹⁾	\$ 2,975,140	\$ 1,588,179	\$ 2,413,164	\$ 6,976,483
A reconciliation of shopping centres and development land to total assets is as follows:				
Cash and cash equivalents				64,015
Loans, mortgages and other real estate assets				67,144
Other assets				60,224
Amounts receivable				22,566
Investment in joint venture				37,893
Residential development inventory				33,292
Total assets				\$ 7,261,617

⁽¹⁾ Includes investment properties classified as held for sale.

6. INVESTMENT IN JOINT VENTURE

The Company has a 50% joint venture interest in a shopping centre located in Ottawa, Ontario which it accounts for using the equity method. Summarized below is the financial information for the joint venture.

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Non-current assets	\$ 98,100	\$ 98,100
Cash and cash equivalents	2,612	538
Other current assets	300	311
Total assets	101,012	98,949
Non-current liabilities	21,678	22,490
Current liabilities	3,002	674
Total liabilities	24,680	23,164
Net assets	\$ 76,332	\$ 75,785
Proportion of the Company's interest at 50%	\$ 38,166	\$ 37,893

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Revenue	\$ 8,649	\$ 8,392
Expenses	3,843	3,966
Increase (decrease) in value of investment properties, net	(138)	10,149
Net income	\$ 4,668	\$ 14,575
Proportion of the Company's interest at 50%	\$ 2,334	\$ 7,287

The Company has received distributions of \$2.1 million and \$2.3 million from the joint venture in 2013 and 2012, respectively, and made contributions of nil to the joint venture in 2013 and 2012.

The joint venture has no contingent liabilities or material capital commitments as at December 31, 2013 and December 31, 2012. The joint venture is restricted from distributing its profits until it obtains the consent of the two venture partners.

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

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
		<i>(Restated – Note 3)</i>
Loans and mortgages receivable (a)	\$ 68,150	\$ 20,553
AFS investments in equity securities	3,631	—
	\$ 71,781	\$ 20,553

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties and bear interest at a weighted average coupon and effective interest rate at December 31, 2013 of 6.3% per annum (December 31, 2012 – 8.8% per annum). The loans and mortgages receivable mature between 2015 and 2025.

Scheduled principal receipts of current and non-current loans and mortgages receivable as at December 31, 2013 are as follows:

<i>(thousands of Canadian dollars, except other data)</i>	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate
2014	\$ 41	\$ 24,182	\$ 24,223	9.53%
2015	43	7,730	7,773	10.35%
2016	—	8,195	8,195	7.96%
2017	—	3,522	3,522	5.29%
2019 to 2025	—	47,857	47,857	5.46%
	\$ 84	\$ 91,486	\$ 91,570	7.17%
Unamortized deferred financing fees, premiums and discounts, net and interest receivable			1,037	
			\$ 92,607	
Current (Note 8)			\$ 24,457	6.33%
Non-current			68,150	9.54%
			\$ 92,607	7.17%

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

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
		<i>(Restated – Note 3)</i>
FVTPL investments in equity securities (a)	\$ 27,764	\$ 16,989
AFS investments in equity securities	455	900
Loans and mortgages receivable (b)	24,457	28,702
Loans receivable from sales of residential inventory (c)	24,773	—
	\$ 77,449	\$ 46,591

(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) The Company has loans and mortgages receivable secured by interests in investment properties (or shares of entities owning investment properties) and bear interest at a weighted average coupon and effective interest rate of 9.5% per annum (December 31, 2012 – 10.6% per annum). The loans and mortgages receivable mature during 2014. Refer to Note 7(a).

(c) Loans receivable from sales of residential inventory bear interest at approximately 3% per annum.

9. AMOUNTS RECEIVABLE

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
		<i>(Restated – Note 3)</i>
Trade receivables (net of allowances for doubtful accounts of \$2.8 million (December 31, 2012 – \$3.2 million))	\$ 17,161	\$ 12,761
Construction and development related chargebacks and receivables	348	1,072
Corporate and other amounts receivable (a)	9,535	8,733
	\$ 27,044	\$ 22,566

(a) Includes \$8.4 million (December 31, 2012 – \$7.9 million) of estimated insurance and indemnity proceeds receivable relating to environmental remediation (Note 15(a)).

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.

10. OTHER ASSETS

<i>(thousands of Canadian dollars)</i>	Note	December 31, 2013	December 31, 2012
			<i>(Restated – Note 3)</i>
Non-current			
Fixtures, equipment and computer hardware and software (net of accumulated amortization of \$12.5 million (December 31, 2012 – \$9.3 million))		\$ 8,070	\$ 7,302
Deferred financing costs on credit facilities (net of accumulated amortization of \$2.4 million (December 31, 2012 – \$1.8 million))		1,451	956
Held to maturity investment in bond (a)		—	18,830
		\$ 9,521	\$ 27,088
Current			
Deposits and costs on investment properties under option		\$ 8,095	\$ 5,776
Prepaid expenses		6,648	5,763
Other deposits		2,826	3,666
Restricted cash	16 (b)	10,366	17,931
Derivatives at fair value	16 (a)	3,148	—
Residential inventory deposits		5,189	—
Held to maturity investment in bond (a)	16(d)	17,427	—
		\$ 53,699	\$ 33,136

- (a) In connection with the acquisition of a property, the Company assumed a third-party loan that had previously been defeased. The defeasance collateral is a bond issued by an agency of the Canadian federal government with an effective interest rate of 1.25% per annum (contractual rate of 5.96% per annum) and matures in November 2014 (Note 16(d)).

11. 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 and debt principal repayments. 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:

<i>(millions of Canadian dollars, except per share amounts)</i>	December 31, 2013	December 31, 2012
		<i>(Restated – Note 3)</i>
Liabilities (principal amounts outstanding)		
Mortgages and credit facilities	\$ 1,350	\$ 1,583
Mortgage on equity accounted joint venture (at the Company's interest)	11	11
Senior unsecured debentures	1,875	1,479
Convertible debentures	393	339
Equity Capitalization		
Common shares based on closing per share price of \$17.71; December 31, 2012 – \$18.82 (common share purchase warrants as at December 31, 2012 – \$0.35)	3,690	3,889
	\$ 7,319	\$ 7,301

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:

	Measure/ covenant	December 31, 2013	December 31, 2012
			<i>(Restated – Note 3)</i>
Debt to enterprise value, cash balances, net	N/A	44.3%	41.8%
Debt to total assets (investment properties at cost)	<65%		
Joint venture proportionately consolidated		50.5%	49.9%
Joint venture proportionately consolidated, cash balances, net		50.5%	49.4%
Debt to total assets (investment properties at IFRS value)	<65%		
Joint venture proportionately consolidated		43.0%	42.6%
Joint venture proportionately consolidated, cash balances, net		42.9%	42.1%
Joint venture proportionately consolidated, using ten quarter average capitalization rate		44.6%	45.3%
Unencumbered aggregate assets to unsecured debt (investment properties at IFRS value)	>1.30		
Joint venture proportionately consolidated		2.29	2.28
Joint venture proportionately consolidated, using ten quarter average capitalization rate ⁽¹⁾		2.15	2.09
Unencumbered aggregate assets to unsecured debt (investment properties at cost)	>1.30		
Joint venture proportionately consolidated		1.90	1.92
Shareholders' equity, using four quarter average (billions of Canadian dollars) ⁽¹⁾	>\$1.4 billion	\$ 3.3	\$ 2.9
Secured indebtedness to total assets (investment properties at fair value) ⁽¹⁾	<40%	18.2%	22.2%
Year ended	Measure/ covenant	December 31, 2013	December 31, 2012
Debt/EBITDA		8.32	8.58
Interest coverage (EBITDA to interest expense)	>1.65		
Joint venture proportionately consolidated ⁽¹⁾		2.34	2.19
Fixed charges coverage (consolidated EBITDA to debt service)	>1.5		
Joint venture proportionately consolidated ⁽¹⁾		1.89	1.76

⁽¹⁾ Calculations required under the Company's credit facility agreements or indenture governing the senior unsecured debentures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The above ratios include measures not specifically defined in IFRS. They are calculations required pursuant to debt covenants and for this reason are meaningful measures. Measures used in these ratios are defined below:

Debt consists of principal amounts outstanding on credit facilities and mortgages and the par value of senior unsecured debentures. Convertible debentures are excluded as it is the Company's 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.

Secured indebtedness includes mortgages which are collateralized against investment property.

Enterprise value consists of the market value of the Company's common shares and common share purchase warrants, the par value of senior unsecured debentures and convertible debentures, and principal amounts outstanding on mortgages, loans and credit facilities.

EBITDA, as defined in the Company's credit facility agreements and indenture governing the senior unsecured debentures, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the value of investment properties, other gains (losses) and (expenses) and other non-cash items.

Fixed charges include regular principal and interest payments and capitalized interest in the calculation of interest expense and does not include non-cash interest on convertible debentures.

Unencumbered assets include the value of assets that have not been pledged as security under any credit agreement or mortgage, excluding investment properties under development and deferred tax assets. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt, which consists of the senior unsecured debentures.

The Company's strategy involves maintaining its moderate leverage and continuing to improve the interest coverage and fixed charges coverage ratios to allow continued access to capital at the lowest possible cost. The Company's senior unsecured debentures are currently rated BBB (high) with a stable trend by Dominion Bond Rating Service Ltd. and Baa2 with a stable outlook by Moody's Investors Service.

The Company's long-term financial objectives have remained substantially unchanged during the past eight years. Since becoming an investment grade rated company in May 2005, the Company has financed its growth through common shares, warrants 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 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.

12. MORTGAGES AND CREDIT FACILITIES

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
		<i>(Restated - Note 3)</i>
Fixed rate mortgages	\$ 1,331,833	\$ 1,575,656
Floating rate mortgages and secured credit facilities	29,750	21,578
Bank indebtedness	5,000	—
	\$ 1,366,583	\$ 1,597,234
Current	\$ 254,367	\$ 227,671
Mortgages on investment properties classified as held for sale	22,247	41,583
Non-current	1,089,969	1,327,980
	\$ 1,366,583	\$ 1,597,234

Mortgages and the secured credit facilities are secured by investment properties. Of the fair value of investment properties of \$7.3 billion as at December 31, 2013 (December 31, 2012 – \$7.0 billion), approximately \$3.0 billion (December 31, 2012 – \$3.7 billion) has been pledged as security under the mortgages and the secured credit facilities.

(i) Mortgages

Mortgages bear coupon interest at a weighted average interest rate of 5.21% per annum as at December 31, 2013 (December 31, 2012 – 5.31% per annum) and mature in the years ranging from 2014 to 2025. The weighted average effective interest rate on all fixed rate mortgage financing as at December 31, 2013 is 4.90% per annum (December 31, 2012 – 4.98% per annum).

(ii) Credit facilities

On July 26, 2013, the Company completed an increase and extension of its senior unsecured revolving credit facility, extending the maturity to June 30, 2016 and increasing the availability from \$500 million to \$600 million. The facility pricing was also reduced from BA + 1.50% or Prime Rate + 0.50% to BA + 1.325% or Prime Rate + 0.325%.

On November 21, 2013, the Company reduced pricing on its \$75 million secured credit facility from BA + 1.50% or Prime Rate + 0.50% to BA + 1.25% or Prime Rate + 0.25%.

The following table summarizes the details of the Company's lines of credit as at December 31, 2013:

<i>(thousands of Canadian dollars, except other data)</i>	Borrowing Capacity	Amounts Drawn	Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Secured by development properties	\$ 75,000	\$ —	\$ (23)	\$ 74,977	BA + 1.25% or Prime + 0.25%	December 31, 2014
Unsecured	600,000	—	(43,410)	556,590	C\$ at BA + 1.325% or Prime + 0.325% or US\$ at LIBOR + 1.325%	June 30, 2016
Total secured and unsecured facilities	\$ 675,000	\$ —	\$ (43,433)	\$ 631,567		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

Principal repayments of mortgages and credit facilities outstanding as at December 31, 2013 are as follows:

<i>(thousands of Canadian dollars, except other data)</i>	Scheduled Amortization	Payments on Maturity	Total	Coupon Weighted Average Interest Rate
Outstanding cheques	\$ —	\$ 5,000	\$ 5,000	—
2014	36,059	215,602	251,661	5.81%
2015	29,007	213,110	242,117	4.98%
2016	23,403	155,032	178,435	5.07%
2017	20,522	82,901	103,423	5.17%
2018	16,485	123,046	139,531	5.53%
2019 to 2025	42,110	393,030	435,140	4.97%
	\$ 167,586	\$ 1,187,721	\$ 1,355,307	5.21%
Unamortized deferred financing costs, premiums and discounts, net			11,276	
			\$ 1,366,583	

As at December 31, 2013, the Company had mortgages maturing of \$215.6 million at an average interest rate of 5.81% per annum and \$36.1 million of scheduled amortization of principal balances in 2014. Subsequent to December 31, 2013, the Company paid mortgages totalling \$43.0 million, and expects to pay an additional \$8.0 million upon maturity in the first quarter of 2014.

13. SENIOR UNSECURED DEBENTURES

<i>(thousands of Canadian dollars, except other data)</i>					December 31, 2013	December 31, 2012	
Maturity Date	Series	Date of Issue	Interest Rate		Principal Outstanding	Liability	Liability
			Coupon	Effective			
January 31, 2014	E	January 31, 2007	5.36%	5.52%	\$ —	\$ —	53,893
October 30, 2014	F	April 5, 2007	5.32%	5.47%	100,000	99,927	99,809
June 1, 2015	G	November 20, 2009	5.95%	6.13%	125,000	124,699	124,502
January 31, 2017	H	January 21, 2010	5.85%	5.99%	125,000	124,501	124,358
November 30, 2017	I	April 13, 2010	5.70%	5.85%	50,000	49,740	49,683
November 30, 2017	I	April 13, 2010	5.70%	5.82%	25,000	24,898	24,874
November 30, 2017	I	June 14, 2010	5.70%	5.70%	50,000	49,993	49,992
August 30, 2018	J	July 12, 2010	5.25%	5.66%	50,000	49,328	49,167
November 30, 2018	K	August 25, 2010	4.95%	5.30%	50,000	49,254	49,123
November 30, 2018	K	October 26, 2010	4.95%	5.04%	50,000	49,802	49,768
July 30, 2019	L	January 21, 2011	5.48%	5.61%	150,000	149,083	148,946
April 30, 2020	M	March 30, 2011	5.60%	5.73%	110,000	109,255	109,160
April 30, 2020	M	June 13, 2011	5.60%	5.39%	65,000	65,727	65,821
March 1, 2021	N	April 4, 2012	4.50%	4.63%	175,000	173,675	173,522
January 31, 2022	O	June 1, 2012	4.43%	4.56%	100,000	99,165	99,082
January 31, 2022	O	July 17, 2012	4.43%	4.42%	50,000	50,037	49,948
January 31, 2022	O	August 29, 2013	4.43%	4.83%	50,000	48,664	—
December 5, 2022	P	December 5, 2012	3.95%	4.16%	150,000	147,708	147,425
December 5, 2022	P	January 14, 2013	3.95%	4.20%	100,000	98,133	—
October 30, 2023	Q	March 26, 2013	3.90%	4.06%	125,000	123,374	—
October 30, 2023	Q	May 15, 2013	3.90%	3.90%	175,000	174,990	—
			4.86%	5.00%	\$ 1,875,000	\$ 1,861,953	\$ 1,469,073
Current					\$ —	\$ 99,927	\$ —
Non-current						1,762,026	1,469,073
					\$ —	\$ 1,861,953	\$ 1,469,073

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

On June 7, 2013, the Company redeemed the remaining \$53.9 million principal amount outstanding of its 5.36% Series E senior unsecured debentures. The debentures were redeemed at a price of \$1,025.87 for each \$1,000 principal amount of debentures outstanding. In addition, accrued and unpaid interest was paid on the debentures up to but excluding the redemption date. In connection with the redemption, total cash of \$56.3 million was paid to the holders, which consisted of \$53.9 million of principal, \$1.4 million in premium (Note 22) and \$1.0 million in accrued but unpaid interest.

On January 20, 2014, the Company completed the issuance of \$150 million principal amount of senior unsecured debentures, Series R, due August 30, 2024. These debentures bear interest at a coupon rate of 4.79% per annum payable semi-annually commencing August 30, 2014. On February 18, 2014, the Company completed the issuance of an additional \$75 million principal amount of the senior unsecured debentures, which was a re-opening of this series of debentures with effective rate of 4.54% per annum.

14. CONVERTIBLE DEBENTURES

<i>(thousands of Canadian dollars, except other data)</i>		December 31, 2013					December 31, 2012		
Date of Issue	Maturity Date	Interest Rate		Principal	Liability	Equity	Principal	Liability	Equity
		Coupon	Effective						
December 30, 2009	June 30, 2017	5.70%	6.88%	\$ 42,917	\$ 41,362	\$ 984	\$ 46,092	\$ 44,012	\$ 1,031
April 28, 2011	January 31, 2019	5.40%	6.90%	57,500	53,844	2,192	57,500	53,262	2,192
August 9, 2011	January 31, 2019	5.25%	6.07%	57,500	55,477	390	57,500	55,146	390
December 15, 2011	March 31, 2018	5.25%	6.66%	50,000	47,427	1,155	50,000	46,918	1,155
February 16, 2012	March 31, 2017	4.95%	6.51%	75,000	71,620	1,495	75,000	70,712	1,495
May 22, 2012	July 31, 2019	4.75%	6.19%	52,500	49,277	1,439	52,500	48,744	1,439
February 19, 2013	February 28, 2020	4.45%	5.34%	57,500	55,005	403	—	—	—
		5.08%	6.35%	\$ 392,917	\$ 374,012	\$ 8,058	\$ 338,592	\$ 318,794	\$ 7,702

(a) Principal and Interest

The Company has the option of repaying the convertible 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 manner. In addition, the Company has the option of repaying the convertible 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.

During the year ended December 31, 2013, 1.1 million common shares (year ended December 31, 2012 – 1.1 million common shares) were issued for \$19.1 million (year ended December 31, 2012 – \$20.5 million) to pay interest to holders of the convertible debentures. 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	TSX	Holder Option to Convert at the Conversion Price	Company Option to Redeem at Principal Amount (conditional ⁽¹⁾)	Company Option to Redeem at Principal Amount ⁽²⁾	Conversion Price
June 30, 2017	5.70%	FCR.DB.D	2009-2016	Jun 30, 2013 - Jun 29, 2015	Jun 30, 2015 - Jun 30, 2017	\$ 18.75
January 31, 2019	5.40%	FCR.DB.E	2011-2019	Jan 31, 2015 - Jan 30, 2017	Jan 31, 2017 - Jan 31, 2019	\$ 22.62
January 31, 2019	5.25%	FCR.DB.F	2011-2019	Jan 31, 2015 - Jan 30, 2017	Jan 31, 2017 - Jan 31, 2019	\$ 23.77
March 31, 2018	5.25%	FCR.DB.G	2011-2018	Mar 31, 2015 - Mar 30, 2016	Mar 31, 2016 - Mar 30, 2018	\$ 23.25
March 31, 2017	4.95%	FCR.DB.H	2012-2017	Mar 31, 2015 - Mar 30, 2016	Mar 31, 2016 - Mar 31, 2017	\$ 23.75
July 31, 2019	4.75%	FCR.DB.I	2012-2019	Jul 31, 2015 - Jul 30, 2017	Jul 31, 2017 - Jul 31, 2019	\$26.75 - \$27.75 ⁽³⁾
February 28, 2020	4.45%	FCR.DB.J	2013-2020	Feb 28, 2016 - Feb 27, 2018	Feb 28, 2018 - Feb 28, 2020	\$26.75 - \$27.75 ⁽⁴⁾

⁽¹⁾ Period of time during which the Company may redeem the debentures at their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price for the 20 consecutive trading days ending five days prior to the notice of redemption is not less than 125% of the Conversion Price, by giving between 30 and 60 days' written notice.

⁽²⁾ Period of time during which the Company may redeem the debentures at their principal amount plus accrued and unpaid interest by giving between 30 and 60 days' written notice.

⁽³⁾ These debentures are convertible at the option of the holder into common shares of the Company at a conversion price of \$26.75 per common share until July 31, 2017 and \$27.75 per common share thereafter.

⁽⁴⁾ These debentures are convertible at the option of the holder into common shares of the Company at a conversion price of \$26.75 per common share until February 28, 2018 and \$27.75 per common share thereafter.

(b) Normal course issuer bid

On August 23, 2013, the Company renewed its normal course issuer bid (“NCIB”) for all of its then outstanding series of convertible unsecured subordinated debentures. The NCIB will expire on August 26, 2014 or such earlier date as the Company completes its purchases pursuant to the NCIB. All purchases made under the NCIB are at market prices prevailing at the time of purchase determined by or on behalf of the Company.

For the years ended December 31, 2013 and 2012, principal amounts of convertible debentures purchased and amounts paid for the purchases are represented in the table below:

<i>(thousands of Canadian dollars)</i>	Year ended December 31, 2013		Year ended December 31, 2012	
	Principal Amount Purchased	Amount Paid	Principal Amount Purchased	Amount Paid
Total	\$ 3,175	\$ 3,426	\$ 3,035	\$ 3,315

15. OTHER LIABILITIES

<i>(thousands of Canadian dollars)</i>	Notes	December 31, 2013	December 31, 2012
			<i>(Restated – Note 3)</i>
Asset retirement obligations (a)		\$ 11,168	\$ 10,714
Ground leases payable		10,308	11,111
Loan payable	16(d)	—	18,830
Deferred purchase price of investment property – shopping centre	16(e)	—	20,026
		\$ 21,476	\$ 60,681

(a) The Company has obligations for environmental remediation at certain sites within its portfolio. The amounts recorded as liabilities include those amounts recoverable or reimbursable from other parties (Note 9(a)).

16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

<i>(thousands of Canadian dollars)</i>	Note	December 31, 2013	December 31, 2012
			<i>(Restated – Note 3)</i>
Trade payables and accruals		\$ 46,618	\$ 46,374
Construction and development payables		41,260	44,378
Dividends payable		43,755	43,375
Interest payable		32,021	30,246
Tenant deposits		18,779	18,523
Derivatives at fair value (a)		936	2,311
Short positions in marketable securities (b)		8,089	16,663
Mortgage payable (c)		8,800	8,242
Loan payable (d)	10 (a)	17,427	—
Deferred purchase price of investment property – shopping centre (e)		21,260	—
		\$ 238,945	\$ 210,112

(a) The Company enters into forward contracts and interest rate swaps as part of its strategy for managing certain interest rate risks. For those contracts to which the Company has applied hedge accounting, the Company has recorded the changes in fair value for the effective portion of the derivative in OCI (loss) from the date of designation. For those interest rate swaps to which the Company does not apply hedge accounting, the change in fair value is recognized in other gains (losses) and (expenses) (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

The following are the fair values of the Company's asset (liability) hedging instruments:

<i>(thousands of Canadian dollars)</i>	Designated as Hedging Instrument	Maturity	Note	December 31, 2013	December 31, 2012
Bond forward contracts	Yes	January 2014	10	\$ 321	\$ —
Interest rate swaps	Yes	March 2022 through October 2022	10	2,827	(975)
Interest rate swaps	No	May 2018		(936)	(1,336)
				\$ 2,212	\$ (2,311)

Subsequent to December 31, 2013, the Company settled certain of its derivative instruments including forward contracts and interest rate swaps and paid \$1.9 million in connection with the settlement.

- (b) The Company invests from time to time in long and short positions in publicly traded real estate and related securities, which are recorded at market value (Note 8). As at December 31, 2013, a restricted cash balance of \$10.4 million (Note 10) was maintained on account with the Company's security broker as collateral for the Company's investment in short positions.
- (c) The mortgage payable relating to residential development inventory bears interest at an effective rate of 1% per annum. Subsequent to year end, the mortgage was repaid in full.
- (d) In connection with the acquisition of a property, the Company assumed a third-party loan that had previously been defeased. The defeasance collateral is a bond issued by an agency of the Canadian federal government. The effective interest rate of the loan is 1.25% per annum (contractual rate of 5.96% per annum) and matures in November 2014 (Note 10(a)).
- (e) The deferred purchase price is expected to be settled in May 2014. The effective interest rate is 6.20% per annum.

17. SHAREHOLDERS' EQUITY

(a) Share capital

The authorized share capital of the Company consists of 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 income 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.

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

<i>(thousands of Canadian dollars and thousands of common shares)</i>	Note	Year ended December 31, 2013		Year ended December 31, 2012	
		Number of Common Shares	Stated Capital	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of year		206,546	\$ 2,426,836	178,225	\$ 1,928,583
Payment of interest on convertible debentures	14	1,102	19,054	1,148	20,533
Redemption and conversion of convertible debentures		—	—	5,786	84,357
Exercise of options		600	8,496	797	10,560
Issuance of common shares and warrants		108	1,623	20,590	389,789
Expiry of warrants		—	1,677	—	—
Share issue costs and other, net of tax effect		—	(376)	—	(6,986)
Issued and outstanding at end of year		208,356	\$ 2,457,310	206,546	\$ 2,426,836

On August 2, 2013, 5.6 million warrants, which were exercisable at \$19.75, expired without exercise. The Company reclassified the remaining warrant balance from contributed surplus and other equity items to share capital.

(b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

	December 31, 2013					December 31, 2012				
	Contributed Surplus	Convertible Debentures Equity Component	Options Restricted and Deferred Share Units	Warrants	Total	Contributed Surplus	Convertible Debentures Equity Component	Options Restricted and Deferred Share Units	Warrants	Total
	(Note 14)					(Note 14)				
Balance at beginning of year	\$ 19,401	\$ 7,702	\$ 15,636	\$ 1,677	\$ 44,416	\$ 19,494	\$ 7,676	\$ 13,643	\$ —	\$ 40,813
Issuance of warrants	—	—	—	—	—	—	—	—	1,677	1,677
Issuance of convertible debentures	—	403	—	—	403	—	2,857	—	—	2,857
Conversion of convertible debentures to common shares	—	—	—	—	—	—	(2,808)	—	—	(2,808)
Purchase of convertible debentures	(123)	(47)	—	—	(170)	(93)	(23)	—	—	(116)
Options vested	—	—	1,171	—	1,171	—	—	1,130	—	1,130
Exercise of options	—	—	(223)	—	(223)	—	—	(399)	—	(399)
Deferred share units vested	—	—	870	—	870	—	—	991	—	991
Restricted share units vested	—	—	1,668	—	1,668	—	—	1,621	—	1,621
Exercise of restricted share units	—	—	(1,858)	—	(1,858)	—	—	(1,350)	—	(1,350)
Expiry of warrants	—	—	—	(1,677)	(1,677)	—	—	—	—	—
Balance at end of year	\$ 19,278	\$ 8,058	\$ 17,264	\$ —	\$ 44,600	\$ 19,401	\$ 7,702	\$ 15,636	\$ 1,677	\$ 44,416

(c) Stock options

As of December 31, 2013, the Company is authorized to grant up to 15.2 million (December 31, 2012 – 15.2 million) common share options to the employees, officers and directors of the Company. As of December 31, 2013, 3.8 million (December 31, 2012 – 4.8 million) common share options are available to be granted. Options granted by the Company generally expire 10 years from the date of grant and vest over five years. The outstanding options as at December 31, 2013 have exercise prices ranging from \$9.81 – \$18.97 (December 31, 2012 – \$9.78 – \$17.90) and comprise the following:

Exercise Price Range	December 31, 2013					December 31, 2012				
	Outstanding Options			Vested Options		Outstanding Options			Vested Options	
	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share
\$ 9.78 – \$10.81	130	\$ 9.85	4.7	130	\$ 9.85	226	\$ 10.06	4.4	226	\$ 10.06
\$13.00 – \$14.26	1,162	\$ 13.76	4.8	1,162	\$ 13.76	1,513	\$ 13.75	5.5	1,243	\$ 13.71
\$15.47 – \$17.41	2,849	\$ 16.38	4.1	2,352	\$ 16.51	3,050	\$ 16.36	5.0	2,272	\$ 16.55
\$17.90 – \$18.97	1,827	\$ 18.48	8.1	299	\$ 18.17	887	\$ 17.90	8.6	—	\$ —
\$ 9.78 – \$18.97	5,968	\$ 16.37	5.5	3,943	\$ 15.61	5,676	\$ 15.65	5.7	3,741	\$ 15.22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

During the year ended December 31, 2013, \$1.0 million (year ended December 31, 2012 – \$1.1 million) was recorded as an expense related to stock options.

<i>(In Canadian dollars, except other data)</i>	Year ended December 31, 2013		Year ended December 31, 2012	
	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price
Outstanding at beginning of year	5,676	\$ 15.65	5,592	\$ 14.89
Granted (a)	1,036	\$ 18.97	957	\$ 17.88
Exercised (b)	(600)	\$ 13.80	(797)	\$ 12.88
Forfeited	(118)	\$ 17.67	(76)	\$ 16.47
Expired	(26)	\$ 17.02	—	\$ —
Outstanding at end of year	5,968	\$ 16.37	5,676	\$ 15.65

(a) The fair value associated with the options issued was calculated using the Black-Scholes model for option valuation based on the following assumptions:

	Year ended December 31	
	2013	2012
Share options granted (thousands)	1,036	957
Term to expiry	10 years	10 years
Exercise price (range)	\$ 18.97	\$17.41-\$17.90
Weighted average volatility rate	15.0%	17.5%
Weighted average expected option life	6 years	6 years
Weighted average dividend yield	4.32%	4.46%
Weighted average risk free interest rate	1.39%	1.78%
Fair value (thousands)	\$ 1,233	\$ 1,449

(b) The weighted average market share price at which options were exercised for the year ended December 31, 2013 was \$19.05 (year ended December 31, 2012 – \$18.25).

(d) 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, (i) in the case of a Deferred Share Unit ("DSU"), upon redemption by the holder after the date that the holder ceases to be a director of the Company and any of its subsidiaries (the "Retirement Date") but no later than December 15 of the first calendar year commencing after the Retirement Date, and (ii) in the case of a Restricted Share Unit ("RSU") on December 15 of the third calendar year following the year in respect of which the RSU is granted. Holders of RSUs and DSUs receive dividends in the form of additional units when the Company declares dividends on its common shares.

<i>(in thousands)</i>	Year ended December 31, 2013		Year ended December 31, 2012	
	Deferred Share Units	Restricted Share Units	Deferred Share Units	Restricted Share Units
Outstanding at beginning of year	345	302	291	368
Granted (a)	31	117	40	45
Dividends declared	17	18	14	17
Exercised	—	(121)	—	(128)
Forfeited	—	(30)	—	—
Outstanding at end of year	393	286	345	302
Share units available to be granted based on the current reserve	187	435	235	676
Expense recorded for the year (thousands of Canadian dollars)	\$ 795	\$ 1,382	\$ 935	\$ 1,309

- (a) The fair value of the DSUs granted during the year ended December 31, 2013 was \$0.6 million (year ended December 31, 2012 – \$0.7 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, 2013 was \$2.2 million (year ended December 31, 2012 – \$0.8 million), measured based on the Company's share price on the date of grant.

18. NET OPERATING INCOME

Net operating income is as follows:

Year ended December 31, 2013 <i>(thousands of Canadian dollars)</i>	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
Property rental revenue	\$ 272,781	\$ 160,598	\$ 198,125	\$ 631,504	\$ 101	\$ 631,605
Property operating costs	104,094	65,350	65,954	235,398	(1,803)	233,595
Net operating income	\$ 168,687	\$ 95,248	\$ 132,171	\$ 396,106	\$ 1,904	\$ 398,010

Year ended December 31, 2012 <i>(thousands of Canadian dollars)</i>	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
<i>(Restated – Notes 2 and 3)</i>						
Property rental revenue	\$ 247,720	\$ 145,856	\$ 185,319	\$ 578,895	\$ 364	\$ 579,259
Property operating costs	93,923	57,603	60,273	211,799	(1,673)	210,126
Net operating income	\$ 153,797	\$ 88,253	\$ 125,046	\$ 367,096	\$ 2,037	\$ 369,133

⁽¹⁾ Other items are principally operating costs and other adjustments that are not attributable to a region.

Property operating costs includes \$20.5 million (December 31, 2012 - \$18.7 million) related to salaries, wages and benefits.

19. INTEREST AND OTHER INCOME

<i>(thousands of Canadian dollars)</i>	Notes	Year ended December 31	
		2013	2012
			<i>(Restated – Note 3)</i>
Interest, dividend and distribution income from marketable securities and cash investments	8	\$ 3,695	\$ 2,656
Interest income from mortgages and loans receivable	7,8	5,911	3,898
Fees and other income		895	244
Interest income from non-revolving term loan receivable from Gazit America Inc.		—	1,908
		\$ 10,501	\$ 8,706

20. INTEREST EXPENSE

<i>(thousands of Canadian dollars)</i>	Note	Year ended December 31	
		2013	2012
			<i>(Restated – Note 3)</i>
Mortgages and credit facilities		\$ 75,232	\$ 86,663
Senior unsecured debentures		88,913	75,401
Convertible debentures			
Coupon interest		19,721	19,450
Accretion of discounts		1,517	1,496
Amortization of deferred issue costs		2,054	1,849
		23,292	22,795
Total interest expense		187,437	184,859
Interest capitalized to investment properties and residential development inventory		(22,528)	(23,943)
Interest expense		\$ 164,909	\$ 160,916
Convertible debenture interest paid in common shares	14	(19,054)	(20,533)
Change in accrued interest		(1,775)	(2,128)
Effective interest rate in excess of coupon rate on senior unsecured and convertible debentures		(1,471)	(1,339)
Effective interest in excess of coupon interest on assumed mortgages		4,699	4,418
Other non-cash interest expense		(5,304)	(5,110)
Interest capitalized to investment properties and residential development inventory		22,528	23,943
Cash interest paid		\$ 164,532	\$ 160,167

21. CORPORATE EXPENSES

<i>(thousands of dollars, except for percentages)</i>	Year ended December 31	
	2013	2012
Salaries, wages and benefits	\$ 23,389	\$ 22,901
Non-cash compensation	2,802	2,897
Other corporate costs	10,487	9,298
	36,678	35,096
Amounts capitalized to investment properties under development, residential inventory and deferred leasing costs	(11,467)	(11,679)
	\$ 25,211	\$ 23,417

22. OTHER GAINS (LOSSES) AND (EXPENSES)

<i>(thousands of Canadian dollars)</i>	Notes	Year ended December 31	
		2013	2012
Realized gains on sale of marketable securities		\$ 2,564	\$ 3,538
Change in cumulative unrealized gains (losses) on marketable securities classified as FVTPL		(1,988)	2,677
Losses on settlement of debt		(4,092)	(6,549)
Unrealized gains on hedges	16(a)	301	1,459
Gain on settlement of litigation		1,376	—
Investment properties – selling costs		(5,295)	(4,084)
Net gain on sale of residential inventory (a)		2,966	—
Pre-selling costs of residential inventory		(155)	(167)
Gain (loss) on foreign currency exchange		43	(59)
Transaction costs		—	(2,895)
		\$ (4,280)	\$ (6,080)

(a) The components of the Company's net gain on sale of residential inventory are as follows:

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Sales	\$ 28,850	\$ —
Cost of sales	(25,884)	—
Total	\$ 2,966	\$ —

23. INCOME TAXES

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

<i>(thousands of Canadian dollars)</i>	December 31, 2012	Net income	Recognized in OCI	Equity and other	December 31, 2013
Deferred taxes related to non-capital losses and capital losses	\$ (12,763)	\$ 247	\$ —	\$ (656)	(13,172)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	369,932	51,171	1,372	975	423,450
Net deferred taxes	\$ 357,169	\$ 51,418	\$ 1,372	\$ 319	410,278

As at December 31, 2013, the Company had approximately \$50.1 million of non-capital losses which expire between 2014 and 2033.

<i>(thousands of Canadian dollars) (Restated – note 3)</i>	December 31, 2011	Net income	Recognized in OCI	Equity	December 31, 2012
Deferred taxes related to non-capital losses and capital losses	\$ (35,195)	\$ 26,811	\$ —	\$ (4,379)	(12,763)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	313,601	55,347	(607)	1,591	369,932
Net deferred taxes	\$ 278,406	\$ 82,158	\$ (607)	\$ (2,788)	357,169

AS at December 31, 2012, the Company had approximately \$35.0 million of non-capital losses which expire between 2016 and 2032.

The major components of income tax expense include the following:

	Year ended December 31	
<i>(thousands of Canadian dollars)</i>	2013	2012
Deferred income taxes	\$ 51,418	\$ 82,158

The following reconciles the Company's statutory tax rate to its effective tax rate for the years ended December 31, 2013 and 2012:

	Year ended December 31	
<i>(thousands of Canadian dollars)</i>	2013	2012
Income tax expense at the Canadian federal and provincial income tax rate of 26.26% (2012 - 26.22%)	\$ 69,965	\$ 124,667
Increase (decrease) in income taxes due to:		
Non-taxable portion of capital gains and other	(19,443)	(52,331)
Non-deductible interest	398	392
Changes in timing of reversals	630	9,169
Other	(132)	261
	\$ 51,418	\$ 82,158

The Canadian federal and provincial income tax rate increased during 2013 primarily due to the change in the income tax rate by the Province of British Columbia.

24. PER SHARE CALCULATIONS

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

<i>(thousands of Canadian dollars, except other data)</i>	Year ended December 31	
	2013	2012
		<i>(Restated – Note 3)</i>
Numerator		
Net income attributable to common shareholders	\$ 214,863	\$ 392,923
Adjustment for dilutive effect of convertible debentures, net of tax	17,321	16,992
Numerator for diluted per share amounts	\$ 232,184	\$ 409,915
Denominator (in thousands)		
Weighted average number of shares outstanding for basic per share amounts	208,227	189,012
Options	650	864
Convertible debentures	21,071	16,697
Denominator for diluted per share amounts	229,948	206,573
Basic net income per share attributable to common shareholders	\$ 1.03	\$ 2.08
Diluted net income per share attributable to common shareholders	\$ 1.01	\$ 1.98

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

Year ended December 31	Number of Shares if Exercised			
<i>(in Canadian dollars, number of options in thousands)</i>	Exercise Price	2013	Exercise Price Range	2012
Common share options	\$ 17.90	833	\$17.41 - \$17.90	907
Common share options	\$ 18.97	994		

Regular dividends paid per common share were \$0.84 and \$0.82 for the years ended December 31, 2013 and 2012, respectively.

25. RISK MANAGEMENT

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Certain of 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 derivative assets and liabilities (Note 16(a)) and other contracts as at December 31, 2013 is a net asset of \$2.2 million due to changes in interest rates since the inception of the contracts. A 100 basis point increase in the yield curve for these contracts would increase the Company's net asset and equity by \$11.4 million and increase net income by \$0.4 million, with the remainder recognized in other comprehensive income. A 100 basis point decrease in the yield curve for these contracts would decrease the Company's net asset and equity by \$12.4 million and decrease net income by \$0.4 million and the remainder in other comprehensive income.

Interest represents a significant cost in financing the ownership of real property. The Company has a total of \$0.8 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between January 1, 2014 and December 31, 2016 at a weighted average coupon interest rate of 5.52%. 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 \$7.8 million.

The Company's loans and mortgages 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 \$0.9 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. Currently, no one tenant represents more than 7.1% of annualized minimum rent. A tenant's success over the term of its lease and its ability to fulfill its lease obligations is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to the expiry date.

The Company's leases typically have lease terms between 5 and 20 years and may include clauses to enable periodic upward revision of the rental rates, and lease contract extension at the option of the lessee.

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

<i>(thousands of Canadian dollars)</i>	2013
Within 1 year	\$ 398,129
After 1 year, but not more than 5 years	1,177,648
More than 5 years	930,499
	\$ 2,506,276

(c) 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:

<i>(thousands of Canadian dollars)</i>	Payments Due by Period					Total
	2014	2015 to 2016	2017 to 2018	Thereafter		
Mortgages						
Scheduled amortization	\$ 36,059	\$ 52,410	\$ 37,007	\$ 42,110	\$	167,586
Payments on maturity	215,602	368,142	205,947	393,030		1,182,721
Total mortgage obligations	251,661	420,552	242,954	435,140		1,350,307
Mortgage on equity accounted joint venture	434	10,425	—	—		10,859
Senior unsecured debentures	100,000	125,000	400,000	1,250,000		1,875,000
Loans and mortgage payable ⁽¹⁾	25,251	—	—	—		25,251
Interest obligations ⁽²⁾	157,387	250,350	194,904	214,163		816,804
Land leases (expiring between 2023 and 2061)	979	1,964	1,986	18,602		23,531
Contractual committed costs to complete current development projects	19,533	3,865	—	—		23,398
Other committed costs	16,082	—	—	—		16,082
Total contractual obligations ⁽³⁾	\$ 571,327	\$ 812,156	\$ 839,844	\$ 1,917,905	\$	4,141,232

⁽¹⁾ Loans and mortgage payable include a \$8.8 million loan relating to residential development inventory (Note 16) and a \$17.4 million third party loan which is secured by \$17.4 million in Government of Canada bonds (Note 16).

⁽²⁾ Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2013 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

⁽³⁾ 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, and as such have been excluded from this table.

The Company's total estimated costs to complete development projects currently under construction are \$95.5 million with \$23.4 million contractually committed at December 31, 2013.

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, 2013, there was nil (December 31, 2012 – nil) of cash advances drawn against the Company's revolving credit facilities.

In addition, at December 31, 2013, the Company has \$43.4 million (December 31, 2012 – \$10.6 million, net of cash collateralization) of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's above contractual obligations.

26. FINANCIAL ASSETS AND LIABILITIES

Fair Value

A comparison of the carrying amounts and fair values, by class, of the Company's financial instruments, other than those whose carrying amounts approximate their fair values, is as follows:

	Notes	Carrying Amount		Fair Value	
		2013	2012	2013	2012
<i>(in Canadian dollars)</i>					
Financial Assets					
FVTPL investments in equity securities	8	\$ 27,764	\$ 16,989	\$ 27,764	\$ 16,989
AFS investments in equity securities (Current and Non-Current)	7,8	4,086	900	4,086	900
Loans and mortgages receivable (Current and Non-Current)	7,8	91,570	48,852	91,570	48,852
Derivatives at fair value	10	3,148	—	3,148	—
Financial Liabilities					
Mortgages and credit facilities	12	\$ 1,366,583	\$ 1,597,234	\$ 1,384,810	\$ 1,683,464
Senior unsecured debentures	13	1,861,953	1,469,073	1,915,997	1,598,392
Convertible debentures	14	374,012	318,794	390,093	347,725
Derivatives at fair value	16	936	2,311	936	2,311
Short positions in marketable securities	16	8,089	16,663	8,089	16,663

The fair values of the Company's cash and cash equivalents, amounts receivable, deposits, loans receivable from sales of residential inventory, restricted cash and accounts payable and other liabilities approximate their carrying values as at December 31, 2013 and December 31, 2012 due to their short term nature.

The fair values of the Company's held to maturity investment in bond (Note 10(a)) and defeased loan payable (Note 16(d)) approximate their carrying values as at December 31, 2013 and December 31, 2012 due to their short-term maturity date. These items were recorded at fair value at the time of acquisition of the related property in 2012, and the implicit risk-adjusted interest rates used to determine fair value at that time are not significantly different as at December 31, 2013 and December 31, 2012.

The fair value of the Company's mortgage payable (Note 16(c)) approximates its carrying value due to its short-term maturity date and the variable rate of interest associated with the mortgage, for which the Company's credit spread is not significantly different as at December 31, 2013 and December 31, 2012.

The fair values of the Company's investments in FVTPL and AFS equity instruments as well as the short positions in marketable securities, are based on quoted market prices. The Company has an investment in a fund classified as Level 3 AFS equity instrument, for which the fair value is based on the fair value of the properties held in the fund.

The fair value of the Company's loans and mortgages receivable, classified as Level 3, are calculated based on current market rates plus borrower level risk-adjusted spreads on discounted cash flows, adjusted for allowances for non-payment and collateral related risk. At December 31, 2013, the risk-adjusted interest rates ranged from 4.25% to 11.00% (December 31, 2012 – 4.25% to 11.00%).

The fair value of the Company's mortgages and credit facilities payable are calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at December 31, 2013, these rates ranged from 2.63% to 4.39% (December 31, 2012 – 1.85% to 3.72%).

The fair value of the senior unsecured debentures are based on closing bid risk-adjusted spreads and current underlying Government of Canada bond yields on discounted cash flows. For the purpose of this calculation, the Company uses, among others, interest rate quotations provided by financial institutions. As at December 31, 2013, these rates ranged from 1.73% to 4.85% (December 31, 2012 – 2.01% to 4.04%).

The fair values of the convertible debentures are based on the TSX closing bid prices.

The fair value of derivative instruments are determined using present value forward pricing and swap calculations at interest rates that reflect current market conditions. The models also take into consideration the credit quality of counterparties, interest rate curves and forward rate curves. At December 31, 2013, the interest rates ranged from 2.77% to 4.50% (December 31, 2012 – 1.84% to 3.83%).

The fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheets is as follows:

<i>(thousands of Canadian dollars)</i>	Notes	December 31, 2013			December 31, 2012		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets							
FVTPL investments in equity securities (a)	8	\$ 27,764	\$ —	\$ —	16,989	\$ —	—
AFS investments in equity securities	7,8	4,082	—	4	900	—	—
Derivatives at fair value (assets)	10	—	3,148	—	—	—	—
Financial Liabilities							
Derivatives at fair value (liabilities)	16	—	936	—	—	2,311	—
Short positions in marketable securities	16	8,089	—	—	16,663	—	—

The fair value hierarchy of financial instruments that are not measured at fair value on the consolidated balance sheets, but whose fair values are disclosed above are as follows:

<i>(thousands of Canadian dollars)</i>	Notes	December 31, 2013			December 31, 2012		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets							
Loans and mortgages receivable (Current and Non-Current)	7,8	\$ —	\$ —	\$ 91,570	\$ —	\$ —	48,852
Financial Liabilities							
Mortgages and credit facilities	12	—	1,384,810	—	—	1,683,464	—
Senior unsecured debentures	13	—	1,915,997	—	—	1,598,392	—
Convertible debentures	14	390,093	—	—	347,725	—	—

27. SUBSIDIARY WITH NON-CONTROLLING INTEREST

The Company contractually controls Main and Main Developments LP, a subsidiary in which it owns 67%, until such time that all loans and mortgages receivable from the subsidiary have been paid in full. In the event that the loans and mortgages receivable are paid in full, all decisions regarding the relevant activities of the subsidiary will require unanimous consent. The Company has provided the subsidiary with senior and mezzanine debt financing in connection with the acquisition and development of sites. The decision to repay the loans is made by the Management Committee of the subsidiary, which is controlled by the Company.

Non-controlling interest in the equity and the results of this subsidiary, before any inter-company eliminations, are as follows:

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
Non-current assets	\$ 134,614	\$ 95,023
Current assets	779	1,260
Total assets	\$ 135,393	\$ 96,283
Non-current liabilities	80,031	67,761
Current liabilities	43,419	17,363
Total liabilities	123,450	85,124
Net assets	\$ 11,943	\$ 11,159
Non-controlling interests	\$ 3,638	\$ 3,386

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Revenue	\$ 5,719	\$ 1,296
Expenses	5,229	1,254
Increase (decrease) in value of investment properties, net	(49)	1,139
Net income	\$ 441	\$ 1,181
Non-controlling interests	\$ 146	\$ 385

<i>(thousands of dollars)</i>	Year ended December 31	
	2013	2012
Cash provided by operating activities	\$ 152	\$ 113
Cash provided by financing activities	38,106	53,334
Cash used in investing activities	(38,365)	(54,323)
Net decrease in cash and cash equivalents	\$ (107)	\$ (876)

28. CO-OWNERSHIP INTERESTS

The Company is a co-owner in several properties, as listed below, that are subject to joint control and represents joint operations under IFRS 11. The Company recognizes its share of the direct rights to the assets and obligations for the liabilities of these co-ownerships in the consolidated financial statements.

Property	Location	Ownership Interests	
		December 31, 2013	December 31, 2012
Les Galeries de Lanaudiere	Montreal, QC	50%	50%
West Oaks Mall	Abbotsford, BC	50%	50%
Bow Valley Crossing (land)	Calgary, AB	75%	75%
Mclaughlin Corners	Brampton, ON	50%	50%
Midland (land)	Midland, ON	50%	50%
Meadowbrook Centre (II)	Edmonton, AB	50%	50%
Fuzion and KingsClub	Toronto, ON	50%	50%
Hunt Club Marketplace	Ottawa, ON	33%	33%
Kanata Terry Fox (land)	Ottawa, ON	50%	50%
Sherwood Towne Square	Sherwood Park, AB	50%	50%
West Springs Village	Edmonton, AB	50%	50%
Edmonton Brewery District	Edmonton, AB	50%	50%

Summarized below is the financial information for the co-ownerships as a total at the Company's interest.

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
Non-current assets	\$ 220,491	\$ 205,072
Current assets	4,670	3,763
Total assets	\$ 225,161	\$ 208,835
Non-current liabilities	\$ 150,084	\$ 143,315
Current liabilities	4,738	4,459
Total liabilities	\$ 154,822	\$ 147,774
Net assets	\$ 70,339	\$ 61,061

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Revenue	\$ 16,244	\$ 13,377
Expenses	6,890	5,741
Increase in value of investment properties, net	1,065	3,224
Net income	\$ 10,419	\$ 10,860

29. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

(a) Tax effects relating to each component of other comprehensive income (loss)

Year ended December 31	2013			2012		
<i>(thousands of Canadian dollars)</i>	Before-Tax Amount	Tax Recovery (Expense)	Net of Tax Amount	Before-Tax Amount	Tax Recovery (Expense)	Net of Tax Amount
Unrealized losses on available-for-sale marketable securities	\$ (254)	\$ 68	\$ (186)	\$ (557)	\$ 107	\$ (450)
Reclassification of losses (gains) on available-for-sale marketable securities to net income	58	(15)	43	(384)	54	(330)
Unrealized gains on cash flow hedges	4,392	(1,172)	3,220	(1,890)	531	(1,359)
Reclassification of net gain on cash flow hedges to net income	949	(253)	696	330	(85)	245
Other comprehensive income (loss)	\$ 5,145	\$ (1,372)	\$ 3,773	\$ (2,501)	\$ 607	\$ (1,894)

(b) Accumulated other comprehensive (loss) income

Year ended December 31	2013			2012		
<i>(thousands of Canadian dollars)</i>	Opening Balance January 1	Net Change During the Year	Closing Balance December 31	Opening Balance January 1	Net Change During the Year	Closing Balance December 31
Change in cumulative unrealized gains on available-for-sale marketable securities	\$ 19	\$ (143)	\$ (124)	\$ 799	\$ (780)	\$ 19
Unrealized losses on cash flow hedges	(4,199)	3,916	(283)	(3,085)	(1,114)	(4,199)
Accumulated other comprehensive (loss) income	\$ (4,180)	\$ 3,773	\$ (407)	\$ (2,286)	\$ (1,894)	\$ (4,180)

30. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

<i>(thousands of Canadian dollars)</i>	Notes	Year ended December 31	
		2013	2012
			<i>(Restated – Note 3)</i>
Rental revenue recognized on a straight-line basis		\$ (10,483)	\$ (13,346)
Investment properties selling costs	22	5,295	4,084
Realized gains on sale of marketable securities	22	(2,564)	(3,538)
Change in cumulative unrealized (gains) losses on marketable securities classified as FVTPL	22	1,988	(2,677)
Losses on settlement of debt	22	4,092	6,549
Gain on sale of residential inventory	22	(2,966)	—
Non-cash compensation expense		2,999	2,897
Cash settlement of restricted share units		(1,879)	(2,396)
Loss (gain) on foreign currency exchange	22	(43)	59
Deferred income taxes	23	51,418	82,158
Unrealized gains on hedges	22	(301)	(1,459)
		\$ 47,556	\$ 72,331

(b) Net change in non-cash operating items

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

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
		<i>(Restated – Note 3)</i>
Amounts receivable	\$ (3,383)	\$ (5,832)
Prepaid expenses	(1,070)	1,939
Trade payables and accruals	2,822	9,881
Tenant security and other deposits	1,824	5,512
Other working capital changes	(480)	(1,491)
	\$ (287)	\$ 10,009

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

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
		<i>(Restated – Note 3)</i>
(Increase) decrease in loans and mortgages receivable, net	\$ (38,506)	\$ 17,607
Investment in marketable securities, net	(43,051)	(169,373)
Proceeds from disposition of marketable securities	31,369	182,908
	\$ (50,188)	\$ 31,142

(d) Cash and cash equivalents

<i>(thousands of Canadian dollars)</i>	December 31, 2013	December 31, 2012
		<i>(Restated – Note 3)</i>
Cash	\$ 4,679	\$ 52,415
Term deposits	296	11,600
	\$ 4,975	\$ 64,015

31. 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 \$60.0 million (December 31, 2012 – \$59.4 million) to various lenders in connection with certain obligations, including loans advanced to its joint arrangement partners secured by the partners’ interest in the joint arrangements and underlying assets (Note 28).
- (c) The Company is contingently liable by way of letters of credit in the amount of \$43.4 million (December 31, 2012 – \$10.6 million net of cash collateralization), issued by financial institutions on the Company's behalf 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 \$1.0 million (December 31, 2012 – \$1.1 million) with a total obligation of \$23.5 million (December 31, 2012 – \$26.2 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 each such tenant.
- (f) As of December 31, 2013, the Company had outstanding commitments to purchase four properties for an aggregate amount of \$16.1 million, subject to customary closing conditions.
- (g) The Company has a call option, which expires October 2022, to purchase an adjacent property. At the same time, there is a put option on the property by the owner that is exercisable between October 2015 and October 2022.

32. 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, 2013, Alony-Hetz Properties and Investments Ltd. (“Alony-Hetz”) also beneficially owns 8.5% (December 31, 2012 – 10.3%) 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.

Corporate and other amounts receivable include amounts due from Gazit. Gazit reimburses the Company for certain accounting and administrative services provided to it by the Company. In 2012, Gazit was also a tenant at a property owned by the Company. In addition, the Company held a non-revolving unsecured term loan receivable from a subsidiary of Gazit, in the amount of US\$36 million on which the Company earned interest until it was repaid on August 14, 2012.

Such amounts consist of the following:

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Reimbursements for professional services	\$ 720	\$ 766
Interest payments	\$ —	\$ 1,903

As at December 31, 2013, amounts due from Gazit were \$0.2 million (December 31, 2012 – \$0.4 million).

On August 8, 2012, a court-approved plan of arrangement for Gazit America was completed involving the Company and Gazit. Under the plan of arrangement, the Company acquired the shares of Gazit America's operating subsidiaries which together owned and managed all of the medical office and retail properties of Gazit America, and had held certain property-related inter-company indebtedness owing to Gazit America. The reason for the Company to complete the transaction was to acquire from Gazit America 12 medical office and retail properties generally adjacent to existing Company's properties and a 50% interest in a thirteenth property jointly owned with the Company. Refer to Note 5 of these consolidated financial statements for further discussion.

(b) Subsidiaries of the Company

The consolidated financial statements include the financial statements of First Capital Realty and First Capital Holdings Trust. First Capital Holdings Trust is the only significant subsidiary of First Capital Realty and is wholly owned by the Company.

(c) Compensation of Key Management Personnel

Aggregate compensation for directors and the Chief Executive and Chief Financial Officers included in corporate expense is as follows:

<i>(thousands of Canadian dollars)</i>	Year ended December 31	
	2013	2012
Salaries and short-term employee benefits	\$ 2,567	\$ 3,251
Share-based compensation (non-cash compensation expense)	1,871	1,938
	\$ 4,438	\$ 5,189

33. SUBSEQUENT EVENTS

Dividend

The Company announced that it will pay a first quarter dividend of \$0.21 per common share on April 10, 2014 to shareholders of record on March 27, 2014.

34. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized for issue on February 20, 2014.

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TORONTO STOCK EXCHANGE LISTINGS

Common shares:
FCR
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
4.75% Convertible Debentures:
FCR .DB.I
4.45% Convertible Debentures:
FCR .DB.J

TRANSFER AGENT

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Gregory J. Menzies
Executive Vice President, Eastern Canada

Jodi M. Shpigel
Senior Vice President, Central Canada

Roger J. Chouinard
General Counsel and Corporate Secretary

Ralph Huizinga
Vice President, Acquisitions & Development, Western Canada

Maryanne McDougald
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