2017

ANNUAL REPORT

FIRST CAPITAL REALTY INC.

Well Defined Strategy

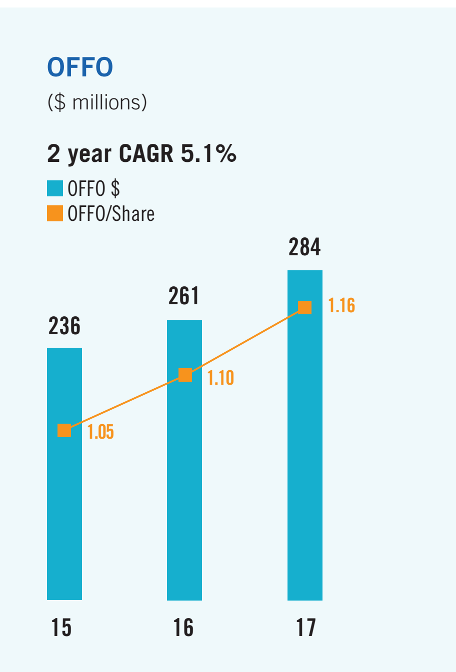
CORPORATE PROFILE

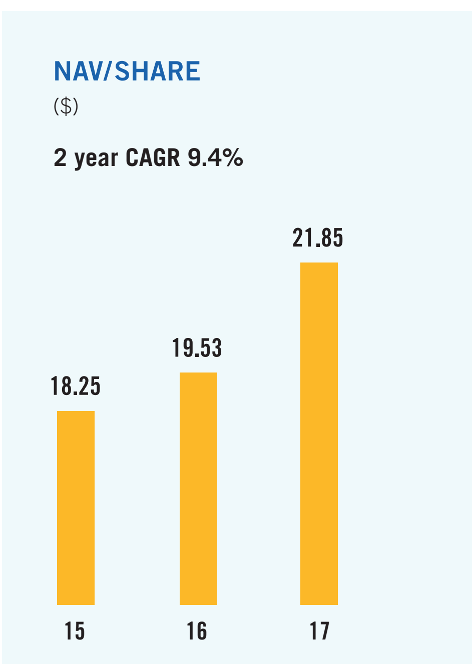
First Capital Realty (TSX: FCR) is one of Canada's largest owners, developers and managers of grocery-anchored, retail-focused urban properties where people live and shop for everyday life. As at December 31, 2017, the Company owned interests in 161 properties, totaling approximately 25.4 million square feet of gross leasable area. At December 31, 2017, First Capital Realty had an enterprise value of $9.5 billion. The common shares of the Company trade on the Toronto Stock Exchange.

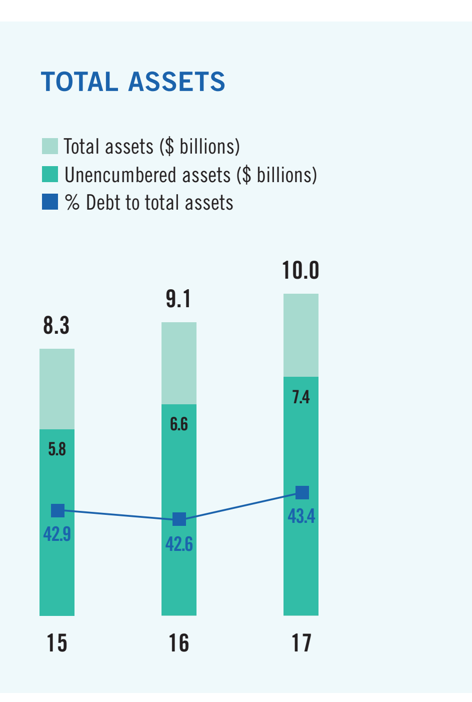
BUSINESS STRATEGY

First Capital Realty's primary strategy is the creation of value over the long term by generating sustainable growth in cash flow and capital appreciation of its 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 focused and disciplined in acquiring well-located properties, primarily where there are value-creation opportunities, including sites in close proximity to existing properties in the Company's target urban markets;
- proactively manage its existing portfolio to drive rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength and flexibility to support a competitive cost of capital.



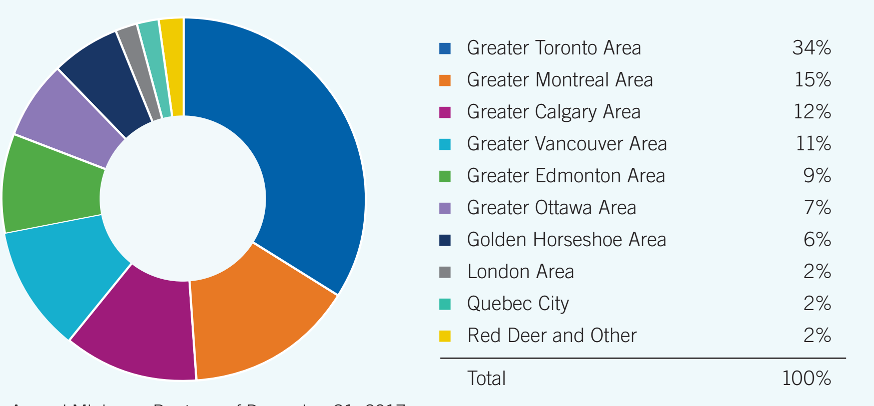




Best in Class Properties

URBAN MARKETS

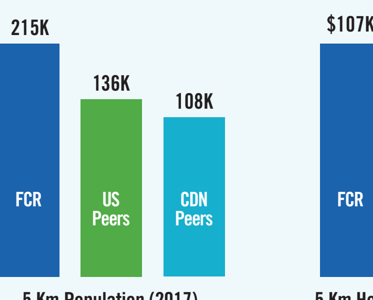
High-quality portfolio of Canadian urban retail assets



Annual Minimum Rents as of December 31, 2017

PORTFOLIO DEMOGRAPHICS

Industry-leading demographic profile



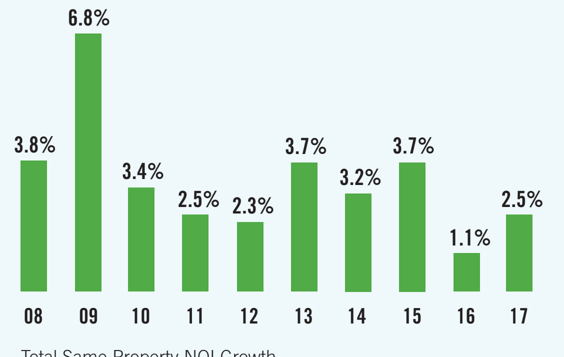
US Peers: Federal Realty, Kimco Realty and Regency Centres

Canadian Peers: Riocan, SmartCentres REIT, CREIT (Retail only), Choice Properties, CT REIT, Crombie REIT

Sources: Sitewise, Environics Analytics & Company Reports

INDUSTRY-LEADING PERFORMANCE

Track record of above-industry-average Same Property NOI growth

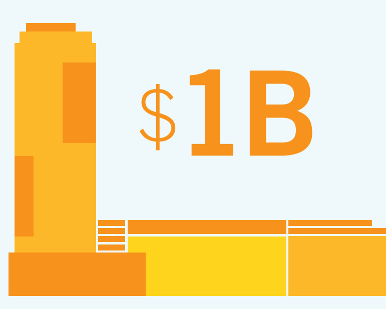


Total Same Property NOI Growth

5 year average – 2.8%
10 year average – 3.3%

INVESTMENT

Approximately $1 billion planned investment in existing properties with development potential



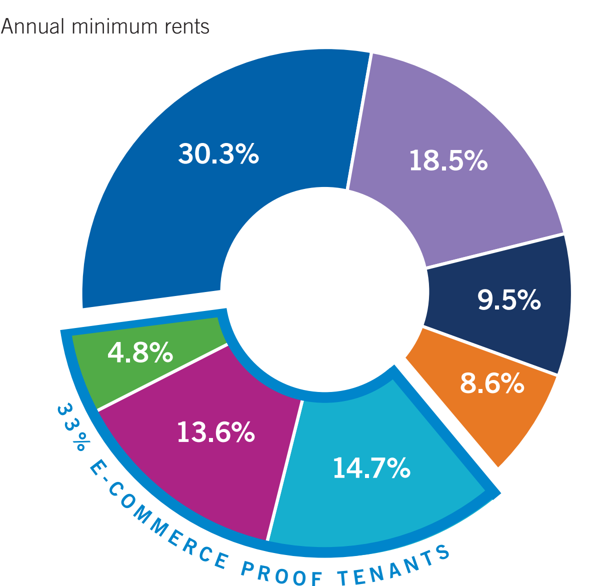
Sustainable Cash Flow

HIGHLIGHTS

- 144 of 161 properties, or 94% of the portfolio fair value is supermarket and/or drugstore anchored
- Over 90% of revenue comes from necessity-based retail (~33% from e-commerce proof categories)
- 8 of the top 10 tenants have investment-grade credit ratings
- Track record of consistently high occupancy
- Investment-grade credit ratings from Moody's: Baa(2) and DBRS: BBB (high)
- 24 consecutive years of paying dividends
- Focused sustainability program – listed on Corporate Knights Future 40 Responsible Corporate Leaders in Canada in 2014–2018

TENANT PROFILE

Annual minimum rents

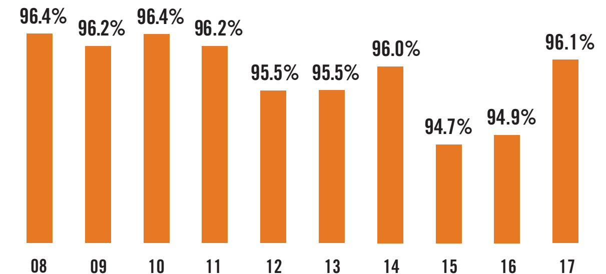


Supermarkets, drugstores and liquor stores	30.3%
Other Necessity-based Retailers	18.5%
Medical, Professional & Personal Services	14.7%
Restaurants & Cafes	13.6%
Other Tenants	9.5%
Banks & Credit Unions	8.6%
Fitness Facilities, Daycare & Learning Centres	4.8%
Total	100%

TOP 10 TENANTS

TOTAL PORTFOLIO OCCUPANCY

5 year average – 95.4%
10 year average – 95.8%



Financial Highlights

As at December 31 *(millions of dollars, except per share amounts)*	**2017**	2016
Total assets	**$ 9,969**	$ 9,105
Total equity market capitalization[1]	**$ 5,065**	$ 5,033
Enterprise value[1]	**$ 9,480**	$ 9,162
Net debt to total assets	**43.4%**	42.6%
Annual dividend per common share	**$ 0.86**	$ 0.86

Operating Highlights

As at December 31 *(millions of dollars, except per share amounts)*	**2017**	2016
Property Rental Revenue	**$ 694**	$ 676
Net Operating Income ("NOI")[1]	**$ 438**	$ 422
Net Income Attributable to Common Shareholders	**$ 633**	$ 383
Funds from Operations ("FFO")[1]		
Operating FFO	**$ 284**	$ 261
Operating FFO per diluted share	**$ 1.16**	$ 1.10
OFFO Payout Ratio	**74.1%**	77.9%
FFO	**$ 284**	$ 263
FFO per diluted share	**$ 1.16**	$ 1.11
FFO Payout Ratio	**74.2%**	77.4%
Cash Provided by Operating Activities	**$ 270**	$ 257
Adjusted Cash Flow from Operations ("ACFO")[1]		
ACFO	**$ 244**	$ 232
ACFO payout ratio	**86.0%**	86.1%

[1] These measures are not defined by IFRS. Refer to the company's Management's Discussion & Analysis for further information.

Message from the President & CEO

Dear Fellow Shareholder,

2017 was one of our best years ever. Our carefully designed strategy continues to deliver consistent growth in an evolving retail world.

Growth in both earnings and NAV is required for a real estate company to be successful. In 2017, your Board and Management team were pleased with our progress. Following a strong year in 2016, per share growth continued with OFFO, FFO and NAV increasing 5.1%, 4.3% and 11.9% respectively. This resulted in our OFFO payout ratio improving by a further 380 bps to 74.1% which will accelerate our future growth.

On the leasing front, we had our most active year ever with a total of 3.1 million square feet of completed lease transactions. This increased occupancy by a solid 120 bps which ended the year at 96.1% representing our highest year end occupancy since 2011.

A key measure of a real estate portfolio's year-over-year performance is same-property NOI. Although we increased occupancy significantly in 2017, the majority of the increase occurred towards the end of the year with average occupancy remaining consistent with 2016. Therefore, owing to higher rental rates, same-property NOI rose a healthy 2.5%. Base rental rates on 1.7 million square feet of lease renewals increased 6.3% (6.8% on 1.5 million square feet in our same property portfolio).

We continued to maintain a strong and flexible financial position with a conservative debt-to-asset ratio. Our debt maturity profile is well-staggered with a weighted average term of 5.4 years and a weighted average interest rate that improved to 4.4%. Our unencumbered asset pool grew by another $800 million to $7.4 billion representing 74% of total assets.

We finished 2017 with very solid results and are well positioned with operational and development momentum heading into 2018.

When I joined First Capital Realty just over three years ago, I immediately immersed myself understanding our assets, people and capabilities. The company was and remains a very busy enterprise. When it comes to the core of our business, particularly our strategy, it has by and large remained consistent after thorough and regular reviews by your Board. But FCR is at a pivotal point in the sense that our platform and portfolio have progressed in a notable way over the last few years, and looking ahead a few more years, we will be noticeably more advanced than we are today.

I think of FCR in three phases or periods of time.

Phase I

The first phase represents many years that culminated in 2014. This was a period when our core DNA was established. During this first phase, we grew our real estate portfolio very aggressively which gave us critical mass in Canada's largest urban growth markets. We have been a Canadian real estate leader in many areas including our urban focus, necessity based tenant mix, CEO succession, sustainability and pursuing unsecured

debentures as a primary source of debt capital. While this unsecured debt strategy came at a meaningful initial cost, it has led to a competitive cost of debt capital and tremendous flexibility from our $7.4 billion unencumbered asset pool which allows us to capitalize on and facilitates the value creation and redevelopment parts of our business. During this formative phase where the foundation for our future was built, we grew our NAV significantly, but had work to do on growing our earnings and building our platform.

Phase II

The next phase took place over the last three years starting with leadership succession. This was a natural time to thoroughly review the business. Following a lot of hard work executing our strategy, our portfolio was in excellent shape. One of the things we then focused on was platform building. We made many improvements to our structure, people and systems. The platform improvements we made during that important transition year (2015), combined with our high quality and well positioned portfolio, has since led to very strong results. Compared to two years ago, our OFFO is 10.1% higher, FFO is 17.4% higher and NAV is 19.7% higher, all on a cumulative per share basis.

YORKVILLE VILLAGE, TORONTO

There were a lot of key fundamental aspects of our platform and culture that we focused on retaining through our transition such as our entrepreneurial spirit and our creative and innovative approach to real estate. I think we are even better at these today. Our recently designed plans for the redevelopment of 101 Yorkville incorporates public realm, pedestrian connectivity, architecture and place making that demonstrates our approach to urban design and architecture is at a new level. When it comes to place making and community building, our Christie Cookie site affords us the best opportunity of all to move to yet another new level. We are in the middle of an international master-plan architect competition for our 28-acre site which continues to see exceptional density emerge around the property and represents one of the best opportunities our company has ever had.

TORONTO FASHION WEEK, YORKVILLE VILLAGE, TORONTO

Sticking with entrepreneurialism, creativity and innovation, things that come to mind are our involvement in purchasing and relocating Toronto Fashion Week to Yorkville Village where we also brought the Salvador Dali Art exhibition through a partnership with the Dali Foundation, as well as our public arts program which has resulted in 26 substantial pieces of public art (and counting) that are permanently on display at FCR properties. I think of the upper level restaurant spaces we are creating throughout our portfolio with Nanawall glass systems and retractable glass roofs. As well as projects like Stackt, which is a transportable retail market made from shipping containers. Together with our partner, we are opening the first Stackt Market this summer on a 2.4-acre site at Bathurst and Front in Toronto.

We have also focused on owning and making our properties more accessible and walkable to the dense consumer base that surrounds them, which we believe will become increasingly more important as densification continues. Our portfolio has an average Walk Score that places us in the second highest category achievable described as "Very walkable where most errands can be accomplished on foot."

Sustainability continues to be an increasingly important part of our success. Our sustainability strategy started to gain traction in 2006 and has many accomplishments that have culminated in FCR being named to Corporate Knights Future 40 Responsible Corporate Leaders in Canada every year since the awards commenced in 2014. We are proud to be the only publicly traded real estate company to hold this distinction.

KING HIGHLINE, TORONTO

We are coming out of this second phase with an irreplaceable portfolio that has the best demographic profile amongst our peers. Today, the average population and household income within a five kilometre radius of our properties is 215,000 and $107,000 respectively. These exceptional demographics surrounding our relatively low density properties makes FCR one of the best covered land investments available. The incremental density that can be added to our portfolio is now nearly 22 million square feet or 90% of our existing leasable area. The vast majority of our properties are income producing but the land is often the most valuable component of the property which presents tremendous opportunity but also limits our downside risk significantly.

But it is our next phase that is most important because it is where we are heading from here.

Phase III

Our real estate strategy continues to be fine-tuned. For a long time now, the criteria we use to select assets in which we can best create value by applying the capabilities of our platform, include urban locations with strong demographic profiles, especially significant and growing population density. Transit is another key factor including planned transit enhancements.

The areas where we are the most successful are where we can positively impact already thriving neighbourhoods by creating retail focused environments. To maximize our potential in this regard, we require scale within each target node. Critical mass allows us to assemble the right number of retailers so we can create an offering that is optimal for the trade area. This results in the assembled group of retailers collectively driving more traffic and overall sales which leads to higher rent growth. Large positions also give us flexibility to redevelop in phases and retain tenants as their needs change. It allows for public realm and amenity space which can be easily overlooked but is so critical when it comes to community building.

As an early developer of mixed use urban retail properties, we continually fine-tune our retail mix. Our typical collective offering of grocery, fitness, pharmacy, healthcare uses, vibrant restaurants, coffee shops, day cares, liquor stores, ethnic food offerings and so on, make adjacent residential properties more desirable and more valuable because of the convenience and amenity rich lifestyle our retail offering provides. This is something we will continue to capitalize on by retaining an economic interest in additional uses at our properties that complement the retail and vice versa.

MOUNT ROYAL VILLAGE, CALGARY

BAYSIDE VILLAGE, QUEEN'S QUAY, TORONTO

Our strategy of focusing on larger assets is well underway. The seven positions we have in Liberty Village, Yorkville, Yonge / Avenue and Lawrence, Mount Royal Village, South Oakville, Griffintown and Brewery District alone represent almost 20% of our total value today.

Active portfolio management has always been a core competency for FCR. Over the last 5 years, we sold nearly $1 billion of real estate and added $3 billion more through development and acquisitions. That $4 billion charge transformed the composition and overall quality of our portfolio which is one of our competitive advantages today. We still own some great properties that don't necessarily fit the larger position profile I touched on earlier, and therefore, we will continue to look to this group of properties as a capital source to help fund our growth.

Another means of expanding our sources of capital will be through partnerships. Over the last few years, we have entered into more partnerships by selling a partial non-managing interest in some of our more stable properties. We are also seeing some great opportunities through partners or potential partners, who value and are seeking our specific retail and development capabilities. For example, our partners at Bayside on Queens Quay and 101 Yorkville each had control of the real estate and selected us as their urban retail development partner of choice. I believe we will source an increasingly amount of meaningful new investment opportunities through similar type partnerships.

To summarize how our asset strategy is evolving, we will continue to focus on fewer, but larger positions, in Canada's best urban nodes, where we can achieve a meaningful retail position. We will also continue to expand our capabilities and get better at what we do. I don't expect it to be a sprint, but I do expect we will be more advanced, more innovative and even better positioned several years from now.

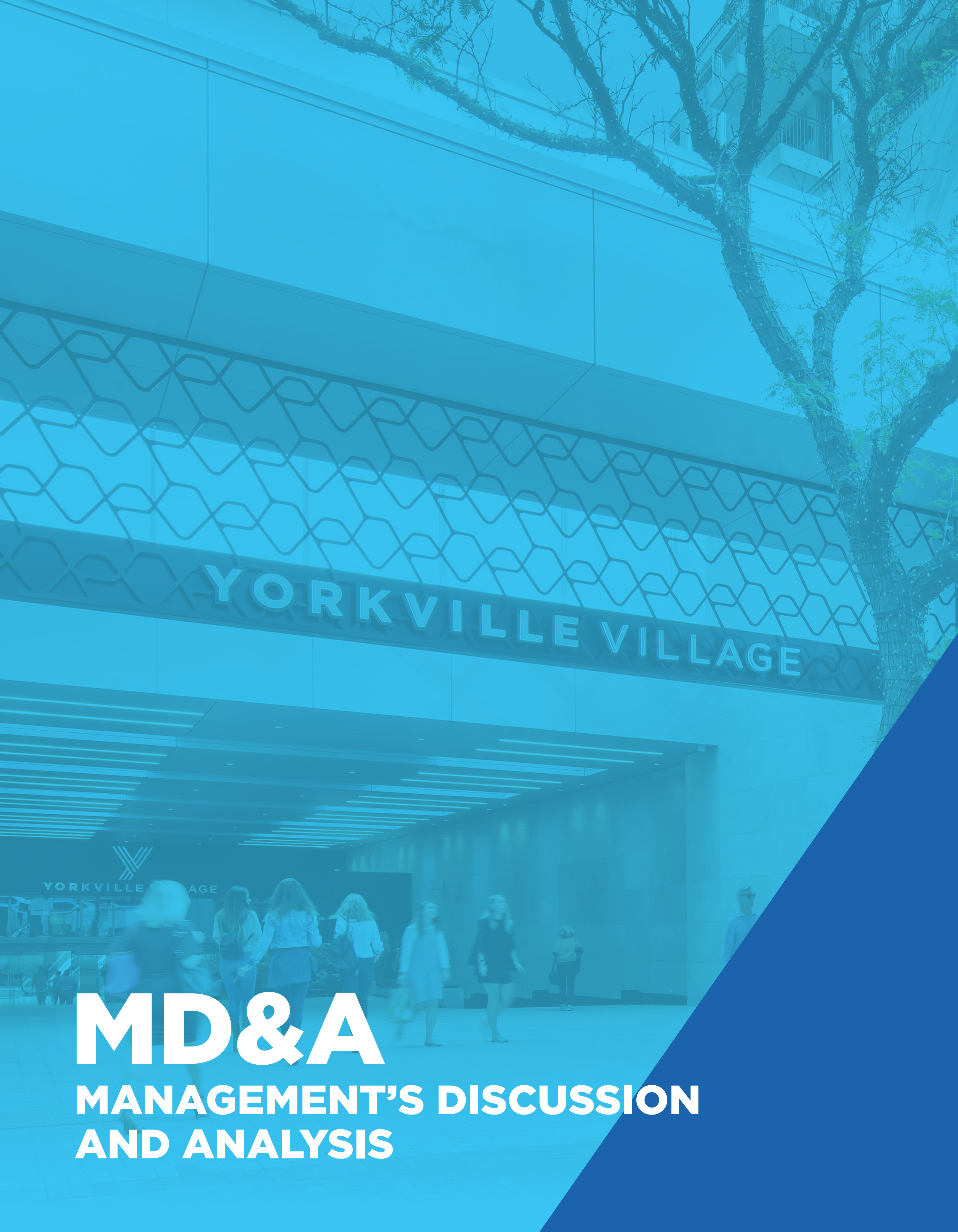
Closing

2017 was a very successful year for our company. I'd like to humbly thank and recognize the passionate and tireless efforts of the First Capital team for their achievements. This engaged group of professionals is led by my partners who form the Executive Leadership Team, an executive group that is deep, talented and in my opinion, the most capable in the business. I'd also like to thank our Chairman and Board of Directors for their ongoing guidance and the active role they play in shaping our strategy and supporting the execution of it. As well, I'd like to express my appreciation to our partners, which is a growing part of our business, for their confidence in us, in addition to our service providers, lenders, advisors and the communities in which we operate.

It is a great responsibility but also an absolute privilege to lead First Capital Realty so I will conclude by thanking you, our investors.

Respectfully,

Adam Paul
President and Chief Executive Officer



MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 of First Capital Realty Inc. (“First Capital Realty”, “FCR” or the “Company”) is intended to provide readers with an assessment of performance and summarize the financial position and results of operations for the three months and years ended December 31, 2017 and 2016. It should be read in conjunction with the Company’s audited annual consolidated financial statements for the years ended December 31, 2017 and 2016. Additional information, including the Company's current Annual Information Form, is available on the SEDAR website at www.sedar.com and on the Company’s website at www.fcr.ca.

All dollar amounts are in thousands of Canadian dollars, unless otherwise noted. Historical results and percentage relationships contained in the Company’s unaudited interim and audited 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 13, 2018.

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

FORWARD-LOOKING STATEMENT ADVISORY

Certain statements contained in 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 online 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, the Company's ability to complete dispositions and the timing, terms and anticipated benefits of any such dispositions, 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; tenant financial difficulties, defaults and bankruptcies; the relative illiquidity of real property; increases in operating costs and property taxes; First Capital Realty’s ability to maintain occupancy and to lease or re-lease space at current or anticipated rents; the availability and cost of equity and debt capital to finance the Company's business, including the repayment of existing indebtedness as well as development, intensification and acquisition activities; changes in interest rates and credit spreads; changes to credit ratings; the availability of a new competitive supply of retail properties which may become available either through construction, lease or sublease; unexpected costs or liabilities related to acquisitions, development and construction; geographic and tenant concentration; 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; investments subject to credit and market risk; loss of key personnel; and the ability of tenants to maintain necessary 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 13, 2018 and are qualified by these cautionary statements.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX : FCR) is one of Canada's largest owners, developers and managers of grocery anchored, retail-focused urban properties where people live and shop for everyday life. As at December 31, 2017, the Company owned interests in 161 properties, totaling approximately 25.4 million square feet of gross leasable area ("GLA").

First Capital Realty's primary strategy is the creation of value over the long term by generating sustainable growth in 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 focused and disciplined in acquiring well-located properties, primarily where there are value creation opportunities, including sites in close proximity 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 and flexibility to support a competitive cost of capital.

Shopping for Everyday Life®

The Company primarily 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 90% of the Company's revenues come from tenants who provide these essential products and services, including grocery stores, pharmacies, liquor stores, banks, restaurants, cafés, fitness centres, medical, childcare facilities and other professional and personal services.

Management looks to implement a specific complementary tenant offering at each of its properties to best serve the needs of the local community. The Company is highly focused on ensuring the competitive position of its assets in their respective urban and retail trade areas and closely follows demographic profiles and shopping trends that may impact the performance of its properties.

In Management's view, shopping centres, including mixed-use properties with a meaningful retail component, located in urban markets with tenants who primarily provide non-discretionary goods and services, will be less sensitive to both economic cycles and changing retail trends, thus adding to the stability and growth of cash flow over the long term.

Shopping for Everyday Life®

	# OF STORES	% OF RENT	TENANTS
Grocery Stores	134	17.6%	Loblaws, Sobeys, metro, save on foods, Whole Foods Market, Longo's
Pharmacies	133	9.3%	Shoppers Drug Mart, Rexall, London Drugs, Jean Coutu, uniprix, Brunet
Liquor Stores	101	3.4%	LCBO, Beer Store, BC Liquor Store, SAQ, Liquor Depot, Western Cellars
Banks & Credit Unions	216	8.6%	TD, RBC, CIBC, BMO, Desjardins, National Bank
Restaurants and Cafes	974	13.6%	Tim Hortons, Cara, freshii, aroma espresso bar
Medical, Professional & Personal Services	1479	14.7%	Alberta Health Services, ups, Allstate You're in good hands., H&R Block, First Choice Haircutters
Fitness Facilities	82	3.5%	GoodLife Fitness, Equinox Fitness Clubs, LA Fitness, Orangetheory Fitness, Anytime Fitness, Gold's Gym
Daycare & Learning Centres	95	1.3%	E-Commerce Proof ~33%; Kumon Math. Reading. Success., brightpath, Oxford Learning Since 1984, kids & company
Other Necessity-Based Retailers	569	18.5%	Canadian Tire, Walmart, Dollarama, GNC Live Well, Winners, PetSmart
Other Tenants	607	9.5%	Cineplex Entertainment, west elm, Sleep Country, Nordstrom, Sherwin Williams, Anthropologie

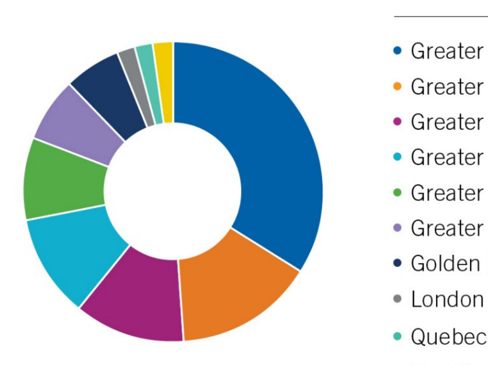
As at December 31, 2017

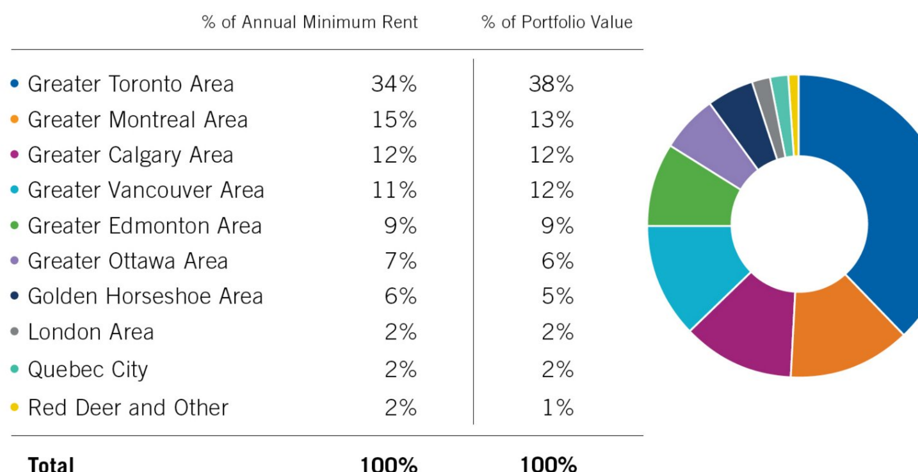
Urban Focus

The Company targets specific urban markets in Canada with stable and/or growing populations. Specifically, the Company intends to continue to operate primarily in and around its target urban markets which include the Greater Toronto Area (including the Golden Horseshoe Area and London); Greater Calgary Area; Greater Edmonton Area; Greater Vancouver Area (including Vancouver Island); Greater Montreal Area; Greater Ottawa Area (including Gatineau region); and Quebec City. Over 95% of the Company's annual minimum rent is derived from these markets.

The Company has achieved critical mass in its target markets, which helps generate economies of scale and operating synergies, as well as deep local knowledge of its properties, tenants, neighbourhoods and markets in which it operates. Within each of these markets, the Company owns and targets well-located properties with strong demographics that Management expects will continue to get stronger over time, therefore attracting high quality tenants with rent growth potential.

Urban Markets





	% of Annual Minimum Rent	% of Portfolio Value
Greater Toronto Area	34%	38%
Greater Montreal Area	15%	13%
Greater Calgary Area	12%	12%
Greater Vancouver Area	11%	12%
Greater Edmonton Area	9%	9%
Greater Ottawa Area	7%	6%
Golden Horseshoe Area	6%	5%
London Area	2%	2%
Quebec City	2%	2%
Red Deer and Other	2%	1%
Total	**100%**	**100%**

*as at December 31, 2017

Real Estate Investments

Acquisitions

Management seeks to acquire well-located, high quality retail properties and sites in the Company's target urban markets. 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 properties in close proximity. These 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. They also provide more flexibility to offer the appropriate merchandising mix, providing a better overall retail product and service offering for consumers in the property's trade area. Management believes that its adjacent site acquisitions result in a stronger retail offering 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 strong trade areas within its existing urban markets where the Company does not yet have a presence.

Dispositions

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

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. Redevelopment activities are focused primarily on older, well-located shopping centres that the Company owns. 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 in which they are situated, an existing tenant base and the ability to increase density through land use intensification. Redevelopment projects are carefully managed to minimize tenant downtime. When possible, 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, give 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, a secular trend that is occurring in most major cities around the world. The Company's land use intensification activities are focused primarily on increasing retail space on a property and adding mixed-use density, including residential and office space. 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.

Investments in redevelopment and development projects are generally less than 10% of the Company's total assets (at invested cost) at any given time. Development activities are strategically managed to reduce leasing risks by obtaining lease commitments from anchor and major tenants prior to commencing construction. The Company also uses experts including architects, engineers and urban planning consultants, and negotiates competitive fixed-price construction contracts.

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.

Proactive Management

The Company views proactive management of its portfolio 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 high 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 including the addition of public art and enhancing the connectivity to the local neighbourhood. 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 employed by the Company.

The Company's executive leadership team is centralized at the Company's head office location in Toronto, which ensures that best practices, procedures and standards are applied consistently across the Company's operating markets. Property management and operations are executed through local operating platforms in all major urban markets. Real estate development and redevelopment, leasing, construction and to some degree acquisitions, are executed through local teams located in the Company's offices in Toronto, Montreal, and Calgary 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.

Cost of Capital

The Company seeks to maintain financial strength and flexibility in order to support a competitive 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 structure composition of senior unsecured debt, mortgage debt, revolving credit facilities, bank indebtedness, convertible debentures and equity provides financing flexibility and reduces risks, while generating an attractive risk-adjusted return on investment, taking into account the long-term business strategy of the Company. The Company also recycles capital through the selective disposition of full or partial interests in properties. When it is deemed appropriate, the Company will raise equity to finance its growth and strengthen its financial position.

DBRS Limited ("DBRS") has rated the Company's senior unsecured debentures as BBB (high), and Moody's has rated these debentures as Baa2. Management believes that this, along with the quality of the Company's real estate portfolio and other business attributes, contribute to reducing the Company's cost of capital.

OUTLOOK AND CURRENT BUSINESS ENVIRONMENT

Since 2001, First Capital Realty has successfully grown its business across the country, focusing on key urban markets, dramatically enhancing the quality of its portfolio and generating growth in funds from operations, while reducing leverage and achieving an investment grade credit rating. The Company expects to continue to grow its portfolio of high quality properties in urban markets in Canada in line with its long-term value creation strategy. The Company defines a high quality property primarily by its location, taking into consideration the local demographics, the retail supply and demand factors in each property trade area, and the ability to grow the property's cash flow.

Changing Consumer Habits

The Company continues to observe several demographic and other trends that may affect demand for retail goods and services, including an increasing reliance by consumers on online information to influence their purchasing decisions and an increasing desire to purchase products online, as well as an aging population which is increasingly focused on convenience and health-related goods and services. There is also a shift in consumer demand driven by an increasing number of ethnic consumers as a result of Canada's immigration policies. In addition, the retail market is experiencing a change in the consumer mindset with a growing emphasis on customer experience driven by recent advances in technology, allowing for more integration and connection between retailers and consumers through smartphones. Another trend that Management continues to observe is a desire for consumers to live in urban markets and to connect with others through daily or frequent trips to grocery stores, fitness centres, cafés and/or restaurants. Retailers have responded to these changes with a renewed focus on improving the overall customer experience both online and in-store through the use of show rooms and pop-up stores. Management is proactively responding to these consumer changes through its tenant mix, unit sizes, shopping centre locations and designs.

Evolving Retail Landscape

Over the past several years, the Company has observed an increase in entry and/or expansion into the Canadian marketplace by several major U.S. and international retailers including Marshalls, Top Shop, Nordstrom, Saks Fifth Avenue, Uniqlo and others. Although such repositioning resulted in new opportunities for the Company, it also resulted in an increasingly competitive retail landscape in Canada. In addition, many retailers have announced store closures and/or bankruptcies, including Sears Canada, Toys "R" Us, Express, Bebe, BCBG Max Azria, HMV, Future Shop, Target and Danier Leather. Although the Company's exposure to these retailers is limited, these store closures have, in the short term, resulted in increased availability of retail space across Canada and have the potential to impact retail rental rates and leasing fundamentals.

As a result of these ongoing changes, the Company remains highly focused on ensuring the competitive position of its shopping centres in all of its various retail trade areas. Management will continue to closely follow demographic and shopping trends, as well as retailer responses to these trends, and retail competition. The Company's leasing strategy takes these factors into consideration in each trade area and its proactive management strategy helps to ensure the Company's properties remain attractive to high quality tenants and their customers.

In Management's view, well-designed shopping centres and mixed-use properties located in urban markets with tenants providing non-discretionary goods and services, will be less sensitive to both economic cycles and evolving retail trends, thus providing more stable and growing cash flow over the long term.

Growth

In 2017, total assets grew 9.5% to $10.0 billion while total net operating income grew 3.7% over the prior year. In addition, the Same Property portfolio delivered net operating income growth of 2.5% compared to the prior year. The growth in Same Property net operating income was primarily due to rent escalations, lease renewals at higher rates and redevelopments coming online. As at December 31, 2017, total portfolio occupancy increased 1.2% to 96.1% compared to 94.9% as at December 31, 2016. For the year ended December 31, 2017, the monthly average occupancy for the total portfolio remained unchanged at 94.9%, while the monthly average Same Property portfolio occupancy was 96.0% compared to 96.1% for the prior year, respectively.

Urban municipalities where the Company operates continue to focus on increasing density within the existing boundaries of infrastructure. This provides the Company with multiple development and redevelopment opportunities in its existing portfolio of urban properties, which includes an inventory of adjacent land sites and development land. As at December 31, 2017, the Company had identified approximately 21.7 million square feet of incremental density available in the portfolio for future development (including 2.9 million square feet of commercial and 18.9 million square feet of residential space), of which approximately 0.5 million square feet of development projects are currently underway.

Development activities continue to provide the Company with growth within its existing portfolio of assets. These activities typically improve the quality of the property, which in turn leads to meaningful growth in 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 that is associated more with project execution rather than market risk, as projects are located in well-established urban communities with existing demand for goods and services. The Company has a long and successful track record of development activities and will continue to manage carefully the risks associated with such projects.

During the year, the Company transferred 131,000 square feet of new urban retail space from development to income-producing properties at a cost of $116.3 million. Approximately 124,000 square feet of the new space was occupied at an average net rental rate of $37.26 per square foot.

Transaction Activity

The property acquisition environment remains extremely competitive for assets of similar quality to those owned by the Company. There are typically multiple bids on high quality properties and asset valuations reflect strong demand for well-located income-producing assets. In addition, well-located urban properties rarely trade in the market and attract significant competition when they do. 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. Therefore, the Company expects to focus on development and redevelopment of existing assets as the primary means to grow the portfolio while continuing to make selective acquisitions that complement the existing portfolio.

During the year, the Company acquired six income-producing properties and increased its interest in two existing properties for $287.2 million, adding a total of 364,400 square feet of gross leasable area to the portfolio. Additionally, the Company invested $157.7 million in development and redevelopment activities during this time period.

The Company continues to evaluate its properties and will occasionally dispose of non-core properties. This allows the Company to redeploy capital into its core urban redevelopment projects where population, rent growth and consumer trends present the opportunity for better long-term growth. During the year, the Company disposed of eight properties, three land parcels, as well as one surplus building for gross proceeds of $90.1 million.

Financing Activity

During the year, the Company repaid $82.9 million of mortgages with a weighted average effective interest rate of 4.1% and secured $152.3 million of new mortgages with a weighted average effective interest rate of 3.6% and a weighted average term of 10.0 years.

The Company also completed the issuance of $300 million principal amount of Series U senior unsecured debentures maturing July 12, 2027, at a coupon rate of 3.75% with interest payable semi-annually commencing January 12, 2018. On January 31, 2017 and November 30, 2017, the Company repaid its 5.85% Series H and 5.70% Series I senior unsecured debentures totaling $250.0 million.

During the year, the Company also redeemed its remaining 5.40% Series E, 5.25% Series F, and 4.75% Series I convertible debentures, totaling $157.3 million, at par. The full redemption price and any accrued interest owing on the convertible debentures was satisfied in cash.

On January 25, 2018, the Company provided a notice of redemption to the holders of the remaining 4.45% Series J convertible debentures that the entire principal amount outstanding plus accrued interest would be redeemed in cash on February 28, 2018.

Outlook

Management is focused on the following five areas to achieve its objectives through 2018 and into 2019:

- development, redevelopment and repositioning activities including land use intensification;
- selective acquisitions of strategic assets and sites in close proximity to existing properties in the Company's target urban markets;
- proactive portfolio management that results in higher rent growth;
- increasing the efficiency and productivity of operations; and
- maintain financial strength and flexibility to support a competitive cost of capital over the long-term.

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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

The Company builds value by creating and managing high quality properties with long-term appeal in neighbourhoods and communities that the Company believes will have a strong and growing customer base well into the future. Since 2011, the Company has published annual Corporate Responsibility and Sustainability ("CRS") Reports. These CRS reports are extensive and 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 have issued a GRI-compliant CRS report. The Company's external auditor Ernst & Young LLP provides a statement of assurance on the CRS report annually.

In April 2017, the Company was named by Corporate Knights as one of the Future 40 Responsible Corporate Leaders in Canada for the fourth consecutive year. For several years, the Company has responded to the Carbon Disclosure Project Information Request ("CDP"), disclosing information to the investment community on the Company's performance results in greenhouse gas emissions, energy use, and risks and opportunities from climate change. The Company employs a full-time Director of Sustainability who is responsible for leading sustainability reporting initiatives and driving continuous environmental improvement.

The Company also takes a highly disciplined approach to the development and redevelopment of the Company's properties across Canada. In 2006, the Company embarked on the path towards sustainability by building new developments to Leadership in Energy and Environmental Design ("LEED") standards subject to tenant acceptance. As at December 31, 2017, 117 projects comprising 3.7 million square feet of GLA were certified to LEED standards. The Company also has 173 properties or 18.4 million square feet certified to the Building Owners and Managers Association Building Environmental Standards ("BOMA BEST"), validating our "best" practices for energy and environmental performance. Reducing energy and greenhouse gas ("GHG") emissions is a key part of the Company's sustainability program. In 2016, the Company made a commitment to reduce its 2018 energy consumption by 7.5% from a 2015 base year, weather-corrected, like-to-like portfolio. The Company is striving to meet this goal by implementing energy conservation measures, such as LED retrofits of parking lot and exterior lighting fixtures. Between 2012 and 2016, the Company surpassed its goal by decreasing its Greenhouse Gas emissions by 23%, despite growth in its portfolio size. Lastly, the Company has installed 120 electric car charging stations across the portfolio. All of these initiatives enhance the properties' environmental performance and many of them reduce operating costs, benefiting the Company's tenants and shareholders.

The Company is committed to connecting and contributing to the communities it serves and enhancing the experience in its shopping centres. For the past 7 years, the Company has embarked on public art projects across the country and through our collaboration with OCAD University, Emily Carr University of Art and Design, and Concordia University, the Company has sponsored public art competitions and has successfully completed 26 sculpture installations in prominent locations throughout our properties.

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 focused on building the long-term value of the Company.

The Company was pleased to be ranked as the most gender diverse company in Canada included in Canada's first gender diversity ETF, launched in 2017 by Evolve Funds. This ETF invests in the most gender diverse companies in North American as ranked by Equileap's[1] extensive gender scorecard, which includes 19 criteria of gender balance and gender equality.

For more information on the Company's Corporate Responsibility and Sustainability practices, please refer to the latest CRS report on the Company's website at www.fcr.ca.

[1] Equileap is an organization aiming to accelerate progress towards gender equality in the workplace, using the power of investments, grants and knowledge and is headquartered in Amsterdam and London.

NON-IFRS FINANCIAL MEASURES

In addition to measures determined in accordance with International Financial Reporting Standards ("IFRS"), the Company uses non-IFRS financial measures to analyze its financial performance. In Management's view, such non-IFRS financial measures are commonly accepted and meaningful indicators of financial performance in the real estate industry and provide useful supplemental information to both Management and investors. These measures do not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other corporations or Real Estate Investment Trusts ("REITs"), and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

The following describe the non-IFRS measures the Company currently uses in evaluating is financial performance.

Proportionate Interest

"Proportionate interest" or "Proportionate share" is defined by Management as the Company's proportionate share of revenues, expenses, assets and liabilities in all of its real estate investments. Under IFRS, the Company's four equity accounted joint ventures are presented on one line item in the consolidated balance sheets and the consolidated statements of income, in aggregate. In the "Non-IFRS Reconciliations and Financial Measures" section of this MD&A, Management presents a consolidated balance sheet and income statement as if its joint ventures were proportionately consolidated. In addition, Management presents certain tables relating to its shopping centre portfolio by geographic region, enterprise value, and debt metrics on a proportionate basis to enhance the relevance of the information presented. The presentation of financial information at the Company's proportionate interest provides a useful and more detailed view of the operation and performance of the Company's business and how Management operates and manages the business. This presentation also depicts the extent to which the underlying assets are leveraged, which are included in the Company's debt metrics. In addition, the Company's lenders require Management to calculate its debt metrics on a proportionate interest basis.

To achieve the proportionate presentation of its four equity accounted joint ventures, Management allocates the Company's proportionate share of revenues, expenses, assets, and liabilities to each relevant line item which replaces the one line presentation found in the IFRS consolidated financial statements. In addition, under IFRS, the Company exercises control over a fifth partially owned venture and consolidates 100% of the revenues, expenses, assets, and liabilities in the consolidated financial statements. In the reconciliations, the partially owned venture is also presented as if it was proportionately consolidated. To achieve the proportionate presentation of its partially owned venture, Management subtracts the non-controlling interest's share (the portion the Company doesn't own) of revenue, expenses, assets, and liabilities on each relevant line item. The Company does not independently control its joint ventures that are accounted for using the equity method, and the proportionate presentation of these joint ventures does not necessarily represent the Company's legal claim to such items.

Where noted, certain sections of this MD&A exclude the Company's proportionate share of Main and Main Urban Realty's ("MMUR") financial information to enhance the relevance of the information presented, as MMUR's business operations are not focused on operating stable income-producing properties at this time. Additionally, in the third quarter of 2017, MMUR announced its intention to sell 20 of its 23 properties which are expected to be sold within the next 9 months.

Select financial information for MMUR is presented in the "Main & Main Urban Realty" section of this MD&A.

Net Operating Income

Net Operating Income ("NOI") is defined by Management as property rental revenue less property operating costs. NOI is a commonly used metric for analyzing real estate performance in Canada by real estate industry analysts, investors and Management. Management believes that NOI is useful in analyzing the operating performance of the Company's shopping centre portfolio.

Total Same Property NOI

Total Same Property NOI (“SP NOI”) is defined by Management as NOI from properties categorized as “Same Property — stable” and “Same Property with redevelopment” (see definitions under “Real Estate Investments — Investment Property Categories” section of this MD&A). NOI from properties that have been (i) acquired, (ii) disposed, (iii) included in major redevelopment or ground-up development or (iv) held for sale are excluded from the determination of SP NOI. SP NOI is presented on a cash basis, as it excludes straight-line rent. Management believes that SP NOI is a useful measure in understanding period over period changes in cash NOI for its Same Property portfolio due to occupancy, rental rates, operating costs and realty taxes. A reconciliation from SP NOI to total NOI can be found in the "Results of Operations - Net Operating Income" section of this MD&A.

Same Property — Stable NOI

Same Property — stable NOI is defined by Management as NOI from stable properties where the only significant activities are leasing and ongoing maintenance (see complete definition under “Real Estate Investments — Investment Property Categories” section of this MD&A). Management believes that Same Property — stable NOI is a useful measure in understanding period over period changes in cash NOI for its largest category of properties.

Funds from Operations

Funds from Operations ("FFO") is a recognized measure that is widely used by the real estate industry, particularly by publicly traded entities that own and operate income-producing properties. The Company calculates FFO in accordance with the recommendations of the Real Property Association of Canada (“REALPAC”) as published in its “White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS” in February 2017. Management considers FFO a meaningful additional financial measure of operating performance, as it excludes fair value gains and losses on investment properties as well as certain other items included in the Company's net income that may not be the most appropriate determinants of the long-term operating performance of the Company, such as investment property selling costs and deferred income taxes. FFO provides a perspective on the financial performance of the Company that is not immediately apparent from net income determined in accordance with IFRS. A reconciliation from net income to FFO can be found in the "Non-IFRS Reconciliations and Financial Measures — FFO, Operating FFO and ACFO" section of this MD&A.

Operating FFO

In addition to FFO described above, Management also calculates Operating FFO. Management considers Operating FFO as its key operating performance measure that, when compared period over period, reflects the impact of certain factors on its core operations, such as changes in net operating income, interest expense, corporate expenses and other income. Operating FFO excludes the impact of certain items in other gains (losses) and (expenses) that are not considered part of the Company's on-going core operations.

Adjusted Cash Flow from Operations

Adjusted Cash Flow from Operations (“ACFO”) is a supplementary measure the Company uses to measure operating cash flow generated from the business. ACFO replaces the Company’s previously reported Adjusted Funds from Operations (“AFFO”) as its supplementary cash flow metric. The Company calculates ACFO in accordance with the recommendations of REALPAC as published in its “White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS” in February 2017.

Management considers ACFO a meaningful metric to measure operating cash flows as it represents sustainable cash available to pay dividends to shareholders. ACFO includes a number of adjustments to cash flow from operations under IFRS including, eliminating seasonal and non-recurring fluctuations in working capital, adding cash flows associated with equity accounted joint ventures and deducting actual revenue sustaining capital expenditures and actual capital expenditures recoverable from tenants. Lastly, ACFO includes an adjustment to exclude the non-controlling interest's portion of cash flow from operations under IFRS, attributed to the Company's consolidated joint venture. A reconciliation of cash flow from operations under IFRS to ACFO can be found in the "Non-IFRS Reconciliations and Financial Measures — FFO, Operating FFO and ACFO" section of this MD&A.

Weighted average share count for FFO and Operating FFO

For purposes of calculating per share amounts for FFO and Operating FFO, the weighted average number of diluted shares outstanding is calculated assuming conversion of only those convertible debentures outstanding that would have a dilutive effect upon conversion, at the holders' contractual conversion price.

Operating FFO, FFO and ACFO Payout Ratios

Operating FFO, FFO and ACFO payout ratios are supplementary non-IFRS measures used by Management to assess the sustainability of the Company's dividend payments. Operating FFO and FFO payout ratios are calculated using dividends declared per share divided by the Operating FFO or FFO per share. The ACFO payout ratio is calculated on a rolling four quarter basis by dividing total cash dividends paid by ACFO over the same period. Management considers a rolling four quarter ACFO payout ratio more relevant than a payout ratio in any given quarter due to the impact of working capital fluctuations period over period.

Enterprise Value

Enterprise value is the sum of the carrying value of the Company's total debt on a proportionate basis and the market value of the Company's shares outstanding at the respective quarter end date. This measure is used by the Company to assess the total amount of capital employed in generating returns to shareholders.

Net Debt

Net debt is a measure used by Management in the computation of certain debt metrics, providing information with respect to certain financial ratios used in assessing the Company's debt profile. Net debt is calculated as the sum of principal amounts outstanding on credit facilities and mortgages, bank indebtedness and the par value of senior unsecured debentures reduced by the cash balances at the end of the period. Convertible debentures are excluded as the Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization, ("Adjusted EBITDA") is a measure used by Management in the computation of certain debt metrics. Adjusted EBITDA, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the fair value of investment properties, other gains (losses) and (expenses) and other non-cash or non-recurring items. The Company also adjusts for incremental leasing costs, which is a recognized adjustment to FFO, in accordance with the recommendations of REALPAC.

Unencumbered Aggregate Assets

Unencumbered aggregate assets represents the value of assets that have not been pledged as security under a credit agreement or mortgage. The unencumbered aggregate asset value ratio is calculated as unencumbered aggregate assets divided by the principal amount of unsecured debt, which consists of bank indebtedness, unsecured credit facilities and senior unsecured debentures. This ratio is used by Management to assess the flexibility of the Company to obtain various forms of debt financing at a reasonable cost of capital.

OPERATING METRICS

The Company presents certain operating metrics and portfolio statistics in the MD&A, which include property count, property category, GLA, occupancy, weighted average rate per occupied square foot, top 40 tenants, development pipeline, and renewal activities. The Company uses these operating metrics to monitor and measure operational performance period over period. To align the Company's GLA reporting with its ownership interest in its properties, effective January 1, 2017, unless otherwise noted, all GLA is now presented at the Company's ownership interest (24.0 million square feet at its ownership interest compared to 25.4 million square feet at 100% as at December 31, 2017). These metrics exclude the operating metrics related to the Company's interest in MMUR as its business operations are not focused on operating stable income-producing properties at this time. Additionally, in the third quarter of 2017, MMUR announced its intention to sell 20 of its 23 properties which are expected to be sold within the next 9 months.

Comparative amounts and certain metrics such as occupancy and weighted average rates per occupied square foot have been restated to conform with the current presentation. These changes had minimal impact on the Company's previously disclosed metrics.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at December 31		**2017**		2016		2015
Revenues, Income and Cash Flows [1]						
Revenues and other income	**$**	**722,860**	$	695,925	$	672,494
NOI [2]	**$**	**437,510**	$	421,997	$	409,892
Increase (decrease) in value of investment properties, net	**$**	**458,363**	$	218,078	$	37,773
Net income attributable to common shareholders	**$**	**633,089**	$	382,714	$	203,865
Net income per share attributable to common shareholders (diluted)	**$**	**2.55**	$	1.59	$	0.91
Weighted average number of common shares – diluted – IFRS (in thousands)		**249,413**		246,428		235,870
Cash provided by operating activities		**270,159**		256,598		244,433
Financial Information [1]						
Investment properties – shopping centres [3]	**$**	**9,317,306**	$	8,453,348	$	7,870,719
Investment properties – development land [3]	**$**	**79,053**	$	67,149	$	36,353
Total assets	**$**	**9,968,552**	$	9,104,553	$	8,278,526
Mortgages [3]	**$**	**1,060,339**	$	997,165	$	1,024,002
Credit facilities	**$**	**581,627**	$	251,481	$	224,635
Senior unsecured debentures	**$**	**2,595,966**	$	2,546,442	$	2,244,091
Convertible debentures	**$**	**54,293**	$	207,633	$	327,343
Shareholders’ equity	**$**	**4,647,071**	$	4,195,263	$	3,639,952
Capitalization and Leverage						
Shares outstanding (in thousands)		**244,431**		243,507		225,538
Enterprise value [2]	**$**	**9,480,000**	$	9,162,000	$	8,031,000
Net debt to total assets [2] [4]		**43.4%**		42.6%		42.9%
Weighted average term to maturity on mortgages and senior unsecured debentures (years)		**5.4**		5.3		5.5

Year ended December 31		2017		2016		2015
Dividends						
Dividends	**$**	**210,433**	$	204,233	$	192,781
Dividends per common share	**$**	**0.86**	$	0.86	$	0.86
Operational Information						
Number of properties		**161**		160		158
GLA (square feet) – at 100%		**25,390,000**		25,278,000		24,431,000
GLA (square feet) – at ownership interest		**23,991,000**		23,820,000		23,615,000
Occupancy – Same Property – stable (2)		**97.0%**		96.3%		95.8%
Total portfolio occupancy		**96.1%**		94.9%		94.7%
Development pipeline and adjacent land (GLA) (5) (6)						
Commercial pipeline (primarily retail)		**2,862,000**		2,993,000		3,326,000
Residential pipeline		**18,856,000**		10,856,000		10,612,000
Average rate per occupied square foot	**$**	**19.69**	$	19.30	$	18.70
GLA developed and brought online - at ownership interest		**131,000**		202,000		224,000
Same Property – stable NOI – increase (decrease) over prior period (2) (7)		**2.0%**		0.8%		4.1%
Total Same Property NOI – increase (decrease) over prior period (2) (7)		**2.5%**		1.1%		3.7%
Funds from Operations (2) (4)						
Operating FFO	**$**	**284,350**	$	260,731	$	236,069
Operating FFO per diluted share	**$**	**1.16**	$	1.10	$	1.05
Operating FFO payout ratio		**74.1%**		77.9%		81.9%
FFO	**$**	**284,110**	$	262,544	$	221,265
FFO per diluted share	**$**	**1.16**	$	1.11	$	0.99
FFO payout ratio		**74.2%**		77.4%		86.9%
Weighted average number of common shares – diluted – FFO (in thousands)		**245,153**		236,243		224,069
Adjusted Cash Flow from Operations (2) (4)						
ACFO	**$**	**243,645**	$	231,985		N/A
ACFO payout ratio on a rolling four quarter basis		**86.0%**		86.1%		N/A

(1) As presented in the Company's IFRS consolidated financial statements.

(2) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

(3) Includes properties and mortgages classified as held for sale.

(4) Reflects joint ventures proportionately consolidated. Refer to the "Non-IFRS Financial Measures – *Proportionate Interest*" section of this MD&A.

(5) At the Company's ownership interest. Square footage does not include potential development on properties held by the Company's MMUR joint venture. Refer to the "Business and Operations Review – Main and Main Urban Realty" section of this MD&A.

(6) Beginning in the fourth quarter of 2017, the Company has included very long term projects that have an expected commencement date beyond 15 years.

(7) Calculated based on the year-to-date NOI. Prior period amounts not restated for current period property categories.

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

Investment Property Categories

The Company categorizes its properties for the purposes of evaluating operating performance including Total Same Property NOI. This enables the Company to better reflect 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:

Total 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 redevelopment or to major redevelopment.

Same Property with redevelopment **–** 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 façade, 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 **–** consists of properties acquired during the period including those in close proximity to existing shopping centres. Dispositions include information for properties disposed of in the period.

Investment properties classified as held for sale **–** consists of properties that meet the held for sale criteria under IFRS.

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 as well as 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.

Portfolio Overview

As at December 31, 2017, the Company had interests in 161 investment properties – shopping centres, which were 96.1% occupied with a total GLA of 25.4 million square feet (24.0 million square feet at the Company's ownership interest) and a fair value of $9.3 billion. This compares to 160 investment properties – shopping centres, which were 94.9% occupied with a total GLA of 25.3 million square feet (23.8 million square feet at the Company's ownership interest) and a fair value of $8.5 billion as at December 31, 2016. As at December 31, 2017, the average size of the shopping centres is approximately 158,000 square feet, ranging from approximately 9,200 to over 573,000 square feet.

The Same Property portfolio includes shopping centres sub-categorized in Same Property – stable and Same Property with redevelopment. The Same Property portfolio is comprised of 146 properties with a GLA of 21.7 million square feet (20.6 million square feet at the Company's ownership interest) and a fair value of $7.2 billion. These properties represent 90.7% of the Company's property count, 85.8% of its GLA and 78.4% of its fair value as at December 31, 2017.

The balance of the Company's real estate assets consists of shopping centres which are in various stages of redevelopment, shopping centres acquired in 2017 or 2016 and properties in close proximity to them, as well as properties held for sale.

The Company's shopping centre portfolio based on property categorization is summarized as follows:

As at	**December 31, 2017**				December 31, 2016			
(millions of dollars, except other data)	**Number of Properties**	**GLA (000s sq. ft.)**	**Occupancy**	**Weighted Average Rate per Occupied Square Foot**	Number of Properties	GLA (000s sq. ft.)	Occupancy	Weighted Average Rate per Occupied Square Foot
Same Property – stable	**131**	**17,434**	**97.0%**	**$ 18.99**	131	17,423	96.3%	$ 18.76
Same Property with redevelopment	**15**	**3,151**	**97.1%**	**20.42**	15	3,078	96.1%	19.84
Total Same Property	**146**	**20,585**	**97.0%**	**19.21**	146	20,501	96.2%	18.93
Major redevelopment	**8**	**1,996**	**89.8%**	**23.12**	8	1,971	84.2%	23.33
Ground-up development	**1**	**112**	**97.4%**	**29.70**	1	105	99.4%	32.18
Acquisitions – 2017	**2**	**269**	**93.7%**	**29.99**	—	—	—%	—
Acquisitions – 2016	**4**	**615**	**93.4%**	**23.01**	4	617	93.1%	22.54
Investment properties classified as held for sale	**—**	**414**	**88.3%**	**13.86**	—	415	89.7%	13.70
Dispositions – 2017	**—**	**—**	**—%**	**—**	1	211	84.5%	16.62
Total	**161**	**23,991**	**96.1%**	**$ 19.69**	160	23,820	94.9%	$ 19.30

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

As at	December 31, 2017							December 31, 2016						
(millions of dollars, except other data)	**Number of Properties**	**GLA (sq. ft.)**	**Fair Value[1]**	**% of Total Fair Value**	**Occupancy**	**Weighted Average Rate per Occupied Square Foot**	**% of Annual Minimum Rent**	Number of Properties	GLA (sq. ft.)	Fair Value[1]	% of Total Fair Value	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent
Central Region														
Greater Toronto Area	47	6,806	$ 3,593	38%	97.2%	$ 22.97	34%	46	6,757	$ 3,085	36%	96.5%	$ 22.11	33%
Golden Horseshoe Area	8	1,601	446	5%	99.0%	16.21	6%	8	1,570	405	5%	95.7%	15.91	6%
London Area	7	733	179	2%	94.6%	15.49	2%	7	783	173	2%	93.7%	15.16	3%
	62	9,140	4,218	45%	97.3%	21.18	42%	61	9,110	3,663	43%	96.1%	20.46	42%
Eastern Region														
Greater Montreal Area	32	4,441	1,235	13%	93.0%	16.37	15%	32	4,491	1,189	14%	90.3%	16.43	15%
Greater Ottawa Area	12	1,990	569	6%	97.1%	17.17	7%	11	1,728	474	6%	96.9%	16.69	6%
Quebec City	5	994	190	2%	93.6%	11.10	2%	5	989	175	2%	93.5%	11.29	2%
Other	2	220	44	—%	94.6%	13.93	1%	2	218	43	1%	100.0%	13.43	1%
	51	7,645	2,038	21%	94.2%	15.78	25%	50	7,426	1,881	23%	92.5%	15.71	24%
Western Region														
Greater Calgary Area	16	2,505	1,119	12%	96.9%	22.71	12%	16	2,500	1,041	12%	95.5%	22.46	12%
Greater Vancouver Area	19	2,145	1,111	12%	96.1%	23.44	11%	20	2,241	1,054	12%	95.5%	22.64	11%
Greater Edmonton Area	12	2,312	830	9%	97.1%	19.39	9%	12	2,299	794	9%	97.0%	19.11	10%
Red Deer	1	244	80	1%	92.0%	20.28	1%	1	244	82	1%	93.1%	20.25	1%
	48	7,206	3,140	34%	96.6%	21.78	33%	49	7,284	2,971	34%	95.9%	21.37	34%
Total	161	23,991	$ 9,396	100%	96.1%	$ 19.69	100%	160	23,820	$ 8,515	100%	94.9%	$ 19.30	100%

[1] At the Company's proportionate interest, excluding the fair value of MMUR's investment properties of $58 million as at December 31, 2017 and $49 million as at December 31, 2016.

Among the Company's real estate investment portfolio are thirty-three (2016 - thirty-four) retail assets each with a value greater than $85 million or size greater than 300,000 square feet. Together, these thirty-three retail assets comprise $4.7 billion (2016 - $4.1 billion) or 50% (2016 - 49%) of the Company's aggregate $9.3 billion shopping centre portfolio asset value (2016 - $8.5 billion). These assets, as a percentage of the Company's aggregate value, reflects the Company's focus on larger, but fewer strategic assets in its target urban markets.

Investment Properties – Shopping Centres

A continuity of the Company's investments in its shopping centre acquisitions, dispositions, development and portfolio improvement activities is as follows:

	Year ended December 31	
(millions of dollars)	**2017**	2016
Balance at beginning of period	**$ 8,453**	$ 7,871
Acquisitions		
Shopping centres and additional adjacent spaces	**287**	269
Shopping centres acquired for redevelopment	**—**	17
Development activities and property improvements	**226**	216
Reclassification to residential development inventory	**—**	(5)
Increase (decrease) in value of investment properties, net	**452**	218
Dispositions	**(90)**	(133)
Reclassification to equity accounted joint ventures [1]	**(14)**	—
Other changes	**3**	—
Balance at end of period [2]	**$ 9,317**	$ 8,453

[1] The Company sold a 50% interest in its Royal Orchard property and now owns its remaining 50% interest through an equity accounted joint venture.

[2] Includes investment properties classified as held for sale as at December 31, 2017 and 2016 totaling $91 million and $83 million, respectively.

2017 Acquisitions

Income-producing properties – Shopping Centres and Additional Adjacent Spaces

During the year ended December 31, 2017, the Company acquired six properties in close proximity to existing shopping centres as well as increased its interest in two existing properties, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	GLA (sq. ft.)	Acquisition Cost (in millions)
1.	McKenzie Scotiabank (McKenzie Towne Centre)	Calgary, AB	Q2	100%	7,300	$ 6.5
2.	Domaine Metro Land (Centre Domaine) [1]	Montreal, QC	Q2	50%	—	2.6
3.	4455-4457 Kingston Rd. (Morningside Crossing)	Toronto, ON	Q2	100%	7,100	1.7
4.	1507 Avenue Rd. (Avenue & Lawrence)	Toronto, ON	Q3	100%	3,000	6.7
5.	300 Hunt Club Rd. (Hunt Club Marketplace) [2]	Ottawa, ON	Q3	33%	41,900	9.1
6.	1 Bloor St. East	Toronto, ON	Q4	100%	85,000	200.3
7.	1642 Merivale Rd. (Merivale Mall)	Ottawa, ON	Q4	100%	219,200	59.4
8.	Yorkville Village adjacent properties	Toronto, ON	Q4	100%	900	0.9
	Total				364,400	$ 287.2

[1] The Company acquired an additional 50% interest in the property, increasing its total ownership interest to 100%.

[2] The Company acquired an additional 33% interest in the property, increasing its total ownership interest to 66%.

2016 Acquisitions

Income-producing Properties – Shopping Centres and Additional Adjacent Spaces

During the year ended December 31, 2016, the Company acquired nine properties in close proximity to existing shopping centres, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	GLA (sq. ft.)		Acquisition Cost (in millions)
1.	Peninsula Village	Surrey, BC	Q1	100%	170,900	$	78.5
2.	225 Peel St. (Griffintown)	Montreal, QC	Q1	100%	108,200		56.0
3.	816-838 11th Ave. (Glenbow)	Calgary, AB	Q1	50%	23,800		10.5
4.	Yorkville Village adjacent properties	Toronto, ON	Q1, Q2	100%	—		1.8
5.	Cliffcrest Plaza	Toronto, ON	Q2	100%	72,400		31.9
6.	Whitby Mall	Whitby, ON	Q2	50%	164,700		18.6
7.	Avenue Rd. & Lawrence Ave. assembly	Toronto, ON	Q4	100%	61,500		65.2
8.	2415-2595 Rue de Salaberry (Galeries Normandie)	Montreal, QC	Q4	100%	17,100		5.2
9.	338 Wellington Rd. (Wellington Corners)	London, ON	Q4	100%	2,800		0.8
	Total				621,400	$	268.5

Development Properties

During the year ended December 31, 2016, the Company acquired four development properties, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	Acreage		Acquisition Cost (in millions)
1.	101 Yorkville Ave. (Yorkville Village)	Toronto, ON	Q3	50%	0.5	$	15.5
2.	2520 Chemin Bates (Wilderton)	Montreal, QC	Q4	100%	0.3		1.7
3.	1071 King Street West (remaining 50% interest)	Toronto, ON	Q1	50%	0.3		7.7
4.	2150 Lake Shore Blvd. West (former Christie Cookie site)	Toronto, ON	Q2	50%	13.5		27.1
	Total				14.6	$	52.0

2017 Dispositions

During the year ended December 31, 2017, the Company disposed of interests in eight properties, three land parcels, as well as a surplus building, as summarized in the table below:

Count	Property Name	City/Province	Quarter Sold	Interest Sold	GLA (sq. ft.)	Acreage	Gross Sales Price (in millions)
1.	746 Baseline Rd.	London, ON	Q1	100%	48,600	2.0	
2.	McLaughlin Corners East	Mississauga, ON	Q1	50%	7,800	1.5	
3.	Carrefour St. Hubert (adjacent land)	Longueuil, QC	Q1	100%	—	2.2	
4.	Pemberton II, 1640 Bridgman Ave.	North Vancouver, BC	Q2	100%	4,900	0.2	
5.	2525-2529 Danforth Ave.	Toronto, ON	Q3	100%	1,000	0.3	
6.	McKenzie Professional Centre	Saanich, BC	Q3	100%	44,200	2.0	
7.	Victoria Professional Centre	Victoria, BC	Q3	100%	39,600	1.6	
8.	Cook Street Plaza	Victoria, BC	Q3	100%	8,200	0.4	
9.	Royal Orchard [(1)]	Thornhill, ON	Q4	50%	21,100	1.9	
10.	Place Adoncour	Longueuil, QC	Q4	100%	58,000	2.5	
11.	9900 No. 3 Road & 8031 Williams Rd. (adjacent land)	Richmond, BC	Q4	100%	—	0.8	
12.	Devenish Land Parcel (Mount Royal West) (adjacent land)	Calgary, AB	Q4	100%	—	0.4	
	Total				233,400	15.8	$ 90.1

(1) The Company sold a 50% interest in its Royal Orchard property and now owns its remaining 50% interest through an equity accounted joint venture.

2016 Dispositions

During the year ended December 31, 2016, the Company disposed of interests in six properties and four land parcels, as summarized in the table below:

Count	Property Name	City/Province	Quarter Sold	Interest Sold	GLA (sq. ft.)	Acreage	Gross Sales Price (in millions)
1.	Les Galeries de Lanaudiere	Lachenaie, QC	Q1	50%	269,500	30.5	
2.	1706-1712 152nd Street	Surrey, BC	Q2	100%	4,700	0.2	
3.	Place Kirkland du Barry (adjacent land)	Kirkland, QC	Q2	100%	—	0.8	
4.	Porte de Chateauguay	Chateauguay, QC	Q3	100%	132,400	10.5	
5.	Place Pierre Boucher	Boucherville, QC	Q3	100%	78,400	9.0	
6.	Thickson Place	Whitby, ON	Q3	50%	52,400	5.4	
7.	3033 Sherbrooke (adjacent land)	Montreal, QC	Q3	100%	—	1.5	
8.	Carre Normandie	Montreal, QC	Q3	100%	6,000	0.3	
9.	Jericho Centre (land)	Langley, BC	Q4	100%	—	4.8	
10.	Rutherford Marketplace (adjacent land)	Vaughan, ON	Q4	50%	—	1.3	
	Total				543,400	64.3	$ 137.1

Impact of Acquisitions and Dispositions

The annualized NOI of properties acquired and disposed, at the time of acquisition or disposition, during the years ended December 31, 2017 and 2016 is summarized in the table below:

	Acquired		Disposed	
For the year ended December 31	**2017**	2016	**2017**	2016
Central Region	**$ 10,268**	$ 6,081	**$ 1,442**	$ 1,040
Eastern Region	**4,412**	2,693	**1,072**	5,181
Western Region	**317**	4,516	**1,199**	66
Total	**$ 14,997**	$ 13,290	**$ 3,713**	$ 6,287

Capital Expenditures

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 generally not recoverable from tenants. However, certain leases provide the ability to recover from tenants, over time, a portion of capital expenditures to maintain the physical aspects of the Company's shopping centres. Revenue sustaining capital expenditures generally include tenant improvement costs related to new and renewal leasing, and capital expenditures required to maintain the physical aspects of the shopping centres, such as roof replacements 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, a strategic repositioning after an acquisition, or in advance of a planned disposition to maximize the potential sale price. 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 redeveloped to meet the Company's standards. The Company also considers property age, the potential effects on occupancy and future rent per square foot, and other factors when assessing whether a capital expenditure is revenue enhancing or sustaining.

Capital expenditures incurred in development and redevelopment projects include pre-development costs, direct construction costs, leasing costs, tenant improvements, borrowing costs, overhead including applicable salaries and direct costs of internal staff directly attributable to the projects under active development.

Capital expenditures on investment properties by type and property category are summarized in the table below:

Year ended December 31			**2017**	2016
	Total Same Property	**Other Property Categories**	**Total**	Total
Revenue sustaining	**$ 21,781**	**$ —**	**$ 21,781**	$ 13,915
Revenue enhancing	**23,131**	**19,568**	**42,699**	44,288
Expenditures recoverable from tenants	**7,749**	**1,952**	**9,701**	14,057
Development expenditures	**29,914**	**127,810**	**157,724**	145,858
Total	**$ 82,575**	**$ 149,330**	**$ 231,905**	$ 218,118

During the year ended December 31, 2017, capital expenditures totaled $231.9 million compared to $218.1 million for the prior year. The $13.8 million increase was primarily due to increased development spend and higher revenue sustaining capital expenditures as a result of increased leasing activity over the prior year, offset by lower expenditures recoverable from tenants. Development expenditures increased by $11.9 million over the prior year primarily related to the Mount Royal West redevelopment project.

Valuation of Investment Properties

During the year ended December 31, 2017, the weighted average stabilized capitalization rate of the Company's investment property portfolio decreased from 5.5% as at December 31, 2016 to 5.3%, primarily due to an overall compression in stabilized capitalization rates in Toronto and Vancouver. The net increase in the value of investment properties was $458.4 million primarily due to stabilized NOI growth across the portfolio and the overall compression of stabilized capitalization rates, as discussed above for the year ended December 31, 2017.

The values of the Company's shopping centres and associated stabilized capitalization rates by region were as follows as at December 31, 2017 and December 31, 2016:

As at December 31, 2017		**Capitalization Rate**			
(millions of dollars)	**Number of Properties**	**Weighted Average**	**Median**	**Range**	**Fair Value**
Central Region	**62**	**5.1%**	**5.3%**	**3.8%-7.0%**	**$ 4,204**
Eastern Region	**51**	**5.9%**	**6.0%**	**5.0%-7.0%**	**1,973**
Western Region	**48**	**5.2%**	**5.3%**	**3.8%-6.0%**	**3,140**
Total or Weighted Average	**161**	**5.3%**	**5.5%**	**3.8%-7.0%**	**$ 9,317**

As at December 31, 2016		Capitalization Rate			
(millions of dollars)	Number of Properties	Weighted Average	Median	Range	Fair Value
Central Region	61	5.3%	5.5%	4.1%-7.0%	$ 3,663
Eastern Region	50	6.0%	6.0%	5.0%-7.0%	1,819
Western Region	49	5.3%	5.5%	4.3%-6.5%	2,971
Total or Weighted Average	160	5.5%	5.8%	4.1%-7.0%	$ 8,453

Properties Under Development

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 activities include redevelopment of stable properties, major redevelopment, and ground-up projects. Additionally, properties under development include land with future development potential. All development activities are strategically managed to reduce risk, and properties are generally developed after obtaining anchor tenant lease commitments. Individual buildings within a development are generally constructed only after obtaining commitments on a substantial portion of the space.

Development Pipeline

As at December 31, 2017, the Company's portfolio is comprised of 24.0 million square feet of GLA at the Company's ownership interest. Substantially all of this GLA is located in Canada's six largest urban growth markets which are undergoing significant land use intensification. As such, Management has identified meaningful incremental density available for future development within its existing portfolio. As at December 31, 2017, Management had identified approximately 21.7 million square feet of incremental density. This 21.7 million square feet represents a potential opportunity that is very significant relative to the size of the Company's existing portfolio.

During the fourth quarter of 2017, Management undertook a detailed review of its entire portfolio and updated all of its future uncommitted incremental density. Additionally, Management has now further stratified the density by adding a very long term expected project commencement time frame. Medium term includes project commencement expected within the next 7 years, long term between 8 and 15 years and very long term beyond 15 years. The Company's incremental density is classified by type between commercial and residential. Commercial density primarily consists of retail density.

As a substantial part of the portfolio is located in urban markets where significant land use intensification continues to occur, Management expects future incremental density will continue to grow and provide the Company with increased opportunity to redevelop its generally low density properties.

A breakdown of the active development and incremental density within the portfolio by component and type is as follows:

As at December 31, 2017	Square feet (in thousands)		
	Commercial	Residential	Total
Active Development			
Same Property with redevelopment	33	—	33
Major redevelopment	200	—	200
Ground-up development	129	156	285
	362	**156**	**518**
Future uncommitted incremental density			
Medium term	1,100	2,200	3,300
Long term	1,200	11,800	13,000
Very long term	200	4,700	4,900
	2,500	**18,700**	**21,200**
Total development pipeline	**2,862**	**18,856**	**21,718**

The Company determines its course of action with respect to the 18.7 million square feet of uncommitted potential residential density on a case by case basis given the specifics of each property. The Company's course of action for each property may include selling the property, selling the residential density rights, entering into a joint venture with a partner to develop the property or undertaking the development of the property on its own.

In addition to the Company's development pipeline, information regarding the development potential of the Company's Main and Main Developments joint venture can be found in the "Main and Main Urban Realty" section of this MD&A.

Invested Cost of Properties Under Development

As at December 31, 2017, the Company had $686.0 million of properties under development and development land parcels at invested cost, representing approximately 7.3% of the value of the total portfolio.

A breakdown of invested cost on development activities is as follows:

As at December 31, 2017			Invested Cost (in millions)		
	Number of Projects	Square Feet [1] [2] (in thousands)	Active Development	Pre-Development	Total
Same Property with redevelopment	4	33	$ 8	$ —	$ 8
Major redevelopment	4	200	142	98	240
Ground-up development	2	285	148	—	148
Total development and redevelopment activities	**10**	**518**	**$ 298**	**$ 98**	**$ 396**
Total development land, adjacent land parcels, and other [3]				$ 290	$ 290
Total				**$ 388**	**$ 686**

(1) Includes 156,000 square feet of residential rental apartments.

(2) Square footage relates to active development only.

(3) Includes all other property categories.

2017 Development and Redevelopment Coming Online and Space Going Offline

Development and redevelopment coming online includes both leased and unleased space transferred from development to income-producing properties at completion of construction.

During the year ended December 31, 2017, the Company completed the transfer of 131,000 square feet of new urban retail space from development to the income-producing portfolio at a cost of $116.3 million. Of the space transferred, 124,000 square feet became occupied at an average rental rate of $37.26 per square foot, well above the average rate for the portfolio of $19.69. The remainder of the space transferred is expected to be leased in the next 12 months.

For the year ended December 31, 2017, the Company had tenant closures for redevelopment of 34,000 square feet at an average rental rate of $27.79 per square foot. Of the 34,000 square feet, 25,000 square feet was demolished.

Active Development and Redevelopment Activities

The Company's properties with development and redevelopment activities currently in progress are expected to have a weighted average going-in NOI yield of 5.1% upon completion. This yield is derived from the expected going-in 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 development costs are higher than currently forecasted costs, if final lease terms are lower than forecasted base rent, operating cost or property tax recoveries, or if there are other unforeseen events that cause actual results to differ from assumptions. The quality of the Company's construction is consistent with its strategy of long-term ownership and value creation, and factors in the Company's high standards in construction, materials, architecture, lighting, parking, access, pedestrian amenities, accessibility, as well as development to LEED standards.

Development and redevelopment projects may occur in phases with the completed component of the project included in income-producing properties and the incomplete component included in properties under development. The following tables show this split, where applicable, by showing the total invested cost in two categories: under development and income-producing property. In addition, the following tables reflect square footage of the space under development and invested cost at the Company's ownership interest.

Same Property with Redevelopment

The Company currently has four projects under active development in the Same Property with redevelopment property category. Of the approximately 33,000 square feet under active redevelopment, 30,500 square feet is subject to committed leases at a weighted average rate of $32.11 per square foot. The Company is currently in various stages of negotiations for the remaining planned space.

Highlights of the Company's Same Property with redevelopment projects as at December 31, 2017 are as follows:

As at December 31, 2017			Invested Cost (in millions)		
Count/Project and Major Tenant(s)	Square Feet Under Development (in thousands)	Target Completion Date [1]	Total Estimated incl. Land	Under Development	Estimated Cost to Complete
Active development					
1. 3959 Shelbourne, Victoria, BC *(CIBC)*	8	H1 2018	$ 6	$ 4	$ 2
2. Place Portobello, Brossard, QC *(Chocolato)*	2	H1 2018	2	—	2
3. Bayview Lane Plaza, Markham, ON *(Starbucks)*	2	H1 2018	3	1	2
4. Brampton Corners, Brampton, ON *(PetSmart)*	21	H2 2018	9	3	6
Total Same Property with redevelopment	**33**		**$ 20**	**$ 8**	**$ 12**

[1] H1 and H2 refer to the first six months of the year and the last six months of the year, respectively.

Major Redevelopment

The Company has four projects under active development in the major redevelopment property category. Of the approximately 200,000 square feet under active redevelopment, 73,800 square feet is subject to committed leases at a weighted average rate of $41.82 per square foot. As construction on redevelopment projects occurs in phases, there continues to be ongoing negotiations in various stages with certain retailers for the remaining planned retail space.

Highlights of the Company's major redevelopment projects underway as at December 31, 2017, including costs for completed phases, are as follows:

As at December 31, 2017								
	Square feet (in thousands)				Invested Cost (in millions)			
Count / Property and Major Tenant(s)	Planned Upon Completion	Completed or Existing [1]	Under Development	Target Completion Date [2]	Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete
Active development								
1. Yorkville Village Assets, Toronto, ON	265	227	38	H1 2018 [3]	$ 407	$ 32	$ 348	$ 27
(Whole Foods Market, Equinox Fitness)								
2. 3080 Yonge Street, Toronto, ON	245	197	48	H1 2018	132	33	89	10
(Loblaws)								
3. Mount Royal West, Calgary, AB	93	—	93	H2 2018	70	46	—	24
(Urban Fare, Canadian Tire)								
4. 102 - 108 Yorkville, Toronto, ON	21	—	21	H2 2018	48	31	—	17
(Jimmy Choo, Brunello Cucinelli, Her Majesty's Pleasure (Salon))								
Total Major Redevelopment	**624**	**424**	**200**		**$ 657**	**$ 142**	**$ 437**	**$ 78**

[1] Includes vacant units held for redevelopment.

[2] H1 and H2 refer to the first six months of the year and the last six months of the year, respectively.

[3] Mall completion is H1 2018; partial redevelopment of street assets is 2018 and beyond. In Q2-2017, redevelopment of the street assets at 102 - 108 Yorkville commenced and has been reclassified as a separate project.

Ground-up Development

The Company has two projects under active development in the ground-up development property category. These projects are comprised of approximately 285,000 square feet of space currently under development, of which 129,000 square feet is retail space and 156,000 square feet is residential rental apartments. A total of 48,900 square feet of the retail space currently under development is subject to committed leases at a weighted average rate of $32.04 per square foot. As construction on ground-up developments occurs in phases, there continues to be ongoing negotiations in various stages with retailers for the planned space. Leasing of the residential space is expected to occur in mid-2018.

Highlights of the Company's ground-up projects underway as at December 31, 2017, including costs for completed phases, are as follows:

As at December 31, 2017								
	Square feet (in thousands)				Invested Cost (in millions)			
Count/Project and Major Tenant(s)	Planned Upon Completion	Completed or Existing	Under Development	Target Completion Date [1]	Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete
Active development								
1. The Brewery District, Edmonton, AB [2] [3]	159	112	47	H2 2019	$ 96	$ 18	$ 72	$ 6
(Loblaws City Market, Shoppers Drug Mart, GoodLife Fitness, MEC, Winners)								
2. King High Line (Shops at King Liberty), Toronto, ON [2] [4]	238	—	238	H1 2019	183	130	—	53
(Longo's, Canadian Tire, Shoppers Drug Mart, Kids & Company)								
Total Ground-up Development	**397**	**112**	**285**		**$ 279**	**$ 148**	**$ 72**	**$ 59**

[1] H1 and H2 refer to the first six months of the year and the last six months of the year, respectively.

[2] The Company has a 50% ownership interest in the property.

[3] Target completion date relates to buildings currently under construction. Total estimated square feet and invested cost include buildings not yet started. In Q2-2017, construction commenced on a new building and therefore target completion date has been revised to H2 2019 from H2 2017.

[4] The square feet under development comprises 81,500 square feet of retail and 156,000 square feet of residential space. The Company and its development partner have entered into a binding agreement to sell, upon substantial completion, a 1/3 managing interest in the residential component of the property to Canadian Apartment Properties REIT.

Costs to Complete Active and Redevelopment Activities

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately $149 million. Costs to complete Same Property related developments are planned at $12 million. Costs to complete major redevelopments and ground-up developments, respectively, are planned at $71 million and $42 million in 2018, and $7 million and $17 million thereafter.

Main and Main Urban Realty

MMUR, an equity accounted joint venture, is a Toronto and Ottawa urban development partnership between the Company, Main and Main Developments (itself, a partially owned venture between the Company and a private developer) and a prominent Canadian institutional investor. Each of MMUR's assembly projects are located on a major street in Toronto or Ottawa. As at December 31, 2017 the Company's total investment in MMUR is approximately $121.7 million via its direct and indirect interests which includes a loan to one of its joint venture partners. Main and Main Developments was retained to provide asset and property management services for the real estate portfolio. The Company's net economic interest in MMUR is 37.7%.

In the third quarter of 2017, MMUR announced its intention to sell 20 of its 23 properties and reclassified 14 development properties and 6 income-producing properties to held for sale. Expected closing dates are within the next 9 months. MMUR expects to retain three remaining development properties with the intention of completing its redevelopment plans with their respective joint venture partners.

The following table summarizes key information about MMUR's portfolio.

As at December 31		2017		2016
Number of assemblies		**23**		23
Number of income-producing properties		**8**		8
Projects in active development / pre-development phase		**2 / 13**		2 / 13
GLA (square feet) [1]		**156,100**		110,500
Development expenditures [1]	**$**	**11,132**	$	10,766
Other capital expenditures [1]	**$**	**575**	$	269
Development pipeline and adjacent land (GLA) [1]				
Retail pipeline [1]		**32,983**		113,000
Residential pipeline [1]		**244,946**		603,000
Total investment properties - shopping centres [1]	**$**	**—**	$	48,706
Total investment properties - development [1]	**$**	**27,240**	$	89,183
Total investment properties - held for sale [1]	**$**	**150,107**	$	—
Residential development inventory [1]	**$**	**10,219**	$	5,812
Total assets [1]	**$**	**194,249**	$	151,279
Mortgages [1]	**$**	**—**	$	2,749
Credit facilities [1]	**$**	**12,195**	$	56,798
Credit facilities secured by investment properties held for sale [1]	**$**	**60,635**	$	—

Year ended December 31		2017		2016
Revenue [1]	**$**	**5,109**	$	3,480
Expenses [1]	**$**	**2,939**	$	2,581
Increase (decrease) in value of investment properties [1]	**$**	**23,435**	$	3,549

[1] At the Company's 37.7% interest in MMUR.

Leasing and Occupancy

As at December 31, 2017, total portfolio occupancy increased 0.8% to 96.1% while the Same Property portfolio occupancy was up 0.8% to 97.0% compared to September 30, 2017. The increase was primarily due to new tenants taking possession of approximately 132,000 square feet of space. Total portfolio occupancy was up 1.2% while the Same Property portfolio was up 0.8% compared to December 31, 2016.

Monthly average occupancy for the year ended December 31, 2017 was relatively consistent with the prior year for both the total portfolio and the Same Property portfolio. For the year ended December 31, 2017, the monthly average occupancy for the total portfolio remained unchanged at 94.9% and Same Property portfolio occupancy was 96.0% compared to 96.1% for the prior year, respectively.

Occupancy of the Company's shopping centre portfolio by property categorization as at December 31, 2017 and 2016 was as follows:

As at	**December 31, 2017**			December 31, 2016		
(square feet in thousands)	**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	**16,903**	**97.0%**	**$ 18.99**	16,771	96.3%	$ 18.76
Same Property with redevelopment	**3,060**	**97.1%**	**20.42**	2,956	96.1%	19.84
Total Same Property	**19,963**	**97.0%**	**19.21**	19,727	96.2%	18.92
Major redevelopment	**1,793**	**89.8%**	**23.12**	1,660	84.2%	23.33
Ground-up development	**109**	**97.4%**	**29.70**	104	99.4%	32.18
Investment properties classified as held for sale	**366**	**88.3%**	**13.86**	372	89.7%	13.70
Total portfolio before acquisitions and dispositions	**22,231**	**96.2%**	**19.49**	21,863	95.1%	19.23
Acquisitions – 2017	**252**	**93.7%**	**29.99**	—	—%	—
Acquisitions – 2016	**574**	**93.4%**	**23.01**	574	93.1%	22.54
Dispositions – 2017	**—**	**—%**	**—**	179	84.5%	16.62
Total [1]	**23,057**	**96.1%**	**$ 19.69**	22,616	94.9%	$ 19.30

[1] At the Company's ownership interest, excluding MMUR.

During the three months ended December 31, 2017, the Company completed 582,000 square feet of renewals across the portfolio and achieved a 6.7% overall rate increase per occupied square foot over the expiring lease rates. The Same Property portfolio achieved a 6.8% rate increase on 551,000 square feet of renewals.

The average rental rate per occupied square foot for the total portfolio increased from $19.48 as at September 30, 2017 to $19.69 as at December 31, 2017 primarily due to acquisitions and rent escalations. Management believes that the weighted average rental rate per square foot for the portfolio would be in the range of $25.00 to $27.00, if the portfolio were at market.

Changes in the Company's gross leasable area and occupancy for the total portfolio for the three months ended December 31, 2017 are set out below:

Three months ended December 31, 2017	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio [1]		
	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	Total Square Feet (thousands)	Occupied Square Feet %	Weighted Average Rate per Occupied Square Foot
September 30, 2017 [2]	**19,771**	**96.2%**	**$ 19.08**	**2,866**	**89.4%**	**$ 22.20**	**186**	**0.8%**	**928**	**3.9%**	**23,751**	**95.3%**	**$ 19.48**
Tenant possession	248		18.03	53		15.82	—		(301)		—		17.65
Tenant closures	(133)		(14.59)	(16)		(17.14)	—		149		—		(14.86)
Tenant closures for redevelopment	—		—	—		—	—		—		—		0.00
Developments – tenants coming online [3]	15		35.99	—		—	—		6		21		35.99
Redevelopments – tenant possession	44		25.24	1		17.67	(45)		—		—		25.09
Demolitions	—		—	—		—	(4)		—		(4)		—
Reclassification	39		—	(1)		—	14		(8)		44		—
Total portfolio before Q4 2017 acquisitions and dispositions	19,984	97.0%	$ 19.21	2,903	90.6%	$ 22.14	151	0.6%	774	3.3%	23,812	96.1%	$ 19.58
Acquisitions (at date of acquisition)	—	—%	—	245	94.6%	29.58	—		14		259	93.6%	29.58
Dispositions (at date of disposition)	(21)	100%	16.22	(54)	92.2%	18.32	—		(5)		(80)	94.3%	17.73
December 31, 2017	**19,963**	**97.0%**	**$ 19.21**	**3,094**	**90.8%**	**$ 22.80**	**151**	**0.6%**	**783**	**3.3%**	**23,991**	**96.1%**	**$ 19.69**
Renewals	551		$ 20.26	31		$ 18.11					582		$ 20.15
Renewals – expired	(551)		$ (18.97)	(31)		$ (17.33)					(582)		$ (18.88)
Net change per square foot from renewals			$ 1.29			$ 0.78							$ 1.27
% Increase on renewal of expiring rents			6.8%			4.5%							6.7%

[1] At the Company's ownership interest, excluding MMUR.

[2] Opening balances have been adjusted to reflect the current period presentation.

[3] For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2017 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

During the year ended December 31, 2017, the Company achieved a 6.3% overall rate increase per occupied square foot on 1,712,000 square feet of renewal leases over the expiring lease rates. The rate increase for the Same Property portfolio was 6.8% on 1,479,000 square feet of renewals.

The average rental rate per occupied square foot for the total portfolio increased from $19.30 as at December 31, 2016 to $19.69 as at December 31, 2017 primarily due to rent escalations and acquisitions.

Changes in the Company's gross leasable area and occupancy for the total portfolio for the year ended December 31, 2017 are set out below:

Year ended December 31, 2017	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio [1]		
	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Under Redevelop-ment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	Total Square Feet (thousands)	Occupied Square Feet %	Weighted Average Rate per Occupied Square Foot
December 31, 2016 [2]	**19,727**	**96.2%**	**$ 18.93**	**2,889**	**87.0%**	**$ 21.84**	**188**	**0.8%**	**1,016**	**4.3%**	**23,820**	**94.9%**	**$ 19.30**
Tenant possession	800		15.80	216		13.84	—		(1,016)		—		15.38
Tenant closures	(675)		(15.71)	(137)		(15.74)	—		812		—		(15.72)
Tenant closures for redevelopment	(16)		(14.00)	(18)		(40.05)	34		—		—		(27.79)
Developments – tenants coming online [3]	57		32.65	67		41.22	—		7		131		37.26
Redevelopments – tenant possession	44		25.24	13		12.17	(57)		—		—		22.21
Demolitions	—		—	—		—	(25)		—		(25)		—
Reclassifications	45		—	(8)		—	11		(26)		22		—
Total portfolio before 2017 acquisitions and dispositions	19,982	97.0%	$ 19.21	3,022	90.2%	$ 21.82	151	0.6%	793	3.3%	23,948	96.1%	$ 19.55
Acquisitions (at date of acquisition)	2	27.7%	11.74	252	93.7%	—	—		22		276	92.0%	29.84
Dispositions (at date of disposition)	(21)	100%	16.22	(180)	84.9%	16.53	—		(32)		(233)	86.3%	16.50
December 31, 2017	**19,963**	**97.0%**	**$ 19.21**	**3,094**	**90.8%**	**$ 22.80**	**151**	**0.6%**	**783**	**3.3%**	**23,991**	**96.1%**	**$ 19.69**
Renewals	1,479		$ 19.98	233		$ 18.81					1,712		$ 19.82
Renewals – expired	(1,479)		$ (18.70)	(233)		$ (18.34)					(1,712)		$ (18.65)
Net change per square foot from renewals			$ 1.28			$ 0.47							$ 1.17
% Increase on renewal of expiring rents			6.8%			2.6 %							6.3 %
% Increase in rate per square foot – openings versus all closures			3.9%			(25.8%)							(2.8%)

(1) At the Company's ownership interest, excluding MMUR.

(2) Opening balances have been adjusted to reflect the current period presentation.

(3) For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2017 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

Top Forty Tenants

As at December 31, 2017, 55.1% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2016 – 54.9%). Of these rents, 63.3% came from tenants that have investment grade credit ratings and who represent many of Canada's leading grocery stores, pharmacies, national and discount retailers, financial institutions and other familiar shopping destinations. The weighted average remaining lease term for the Company's top 10 tenants was 6.7 years as at December 31, 2017, excluding contractual renewal options.

Rank	Tenant [(1) (2)]	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.	Loblaw Companies Limited ("Loblaw")	99	2,402	10.4%	10.4%	BBB	BBB	
2.	Sobeys	56	1,959	8.5%	6.3%	BB (high)	BB+	
3.	Metro	35	1,179	5.1%	3.3%	BBB	BBB	
4.	Walmart	15	1,491	6.5%	2.8%	AA	AA	Aa2
5.	Canadian Tire	26	858	3.7%	2.7%	BBB (high)	BBB+	
6.	TD Canada Trust	50	255	1.1%	2.2%	AA	AA-	Aa2
7.	RBC Royal Bank	45	241	1.0%	1.9%	AA	AA-	A1
8.	GoodLife Fitness	26	565	2.4%	1.8%			
9.	Dollarama	53	504	2.2%	1.7%	BBB		
10.	CIBC	37	199	0.9%	1.5%	AA	A+	A1
Top 10 Tenants Total		442	9,653	41.8%	34.6%			
11.	LCBO	23	213	0.9%	1.2%	AA (low)	A+	Aa2
12.	Save-On-Foods	8	298	1.3%	1.2%			
13.	Lowes	4	361	1.6%	1.2%	A (low)	A-	A3
14.	Restaurant Brands International	62	153	0.7%	1.1%		B+	B1
15.	Rexall	17	167	0.7%	1.1%			
16.	BMO	30	131	0.6%	1.0%	AA	A+	A1
17.	London Drugs	10	233	1.0%	1.0%			
18.	Scotiabank	25	128	0.6%	1.0%	AA	A+	A1
19.	Staples	11	252	1.1%	0.9%		B+	B1
20.	Winners	11	274	1.2%	0.9%		A+	A2
21.	Nordstrom	1	40	0.2%	0.8%			
22.	Longo's	4	162	0.7%	0.7%			
23.	Starbucks	44	68	0.3%	0.7%		A-	A3
24.	Jean Coutu	13	175	0.8%	0.7%			
25.	Cara	25	105	0.5%	0.6%			
26.	SAQ	21	102	0.4%	0.6%	A (high)	AA-	Aa2
27.	Michaels	5	88	0.4%	0.6%		BB-	Ba2
28.	Subway	71	81	0.3%	0.6%			
29.	Whole Foods Market	2	90	0.4%	0.5%		A+	Baa1
30.	McDonald's	23	88	0.4%	0.5%		BBB+	Baa1
31.	Pusateri's	1	35	0.2%	0.5%			
32.	The Beer Store	12	69	0.3%	0.5%	AA (low)	A+	Aa2
33.	Toys "R" Us	3	127	0.5%	0.4%		D	
34.	Yum! Brands	30	50	0.2%	0.4%		BB	Ba3
35.	The Home Depot	2	153	0.7%	0.3%	A	A	A2
36.	Liquor Stores	14	50	0.2%	0.3%			
37.	Pet Valu	19	58	0.3%	0.3%			
38.	Williams-Sonoma	2	38	0.2%	0.3%			
39.	Reitmans	15	57	0.2%	0.3%			
40.	Bulk Barn	11	54	0.2%	0.3%			
Top 40 Tenants Total		**961**	**13,553**	**58.9%**	**55.1%**			

[(1)] The names noted above may be the names of the parent entities and are not necessarily the covenants under the leases.
[(2)] Tenants noted include all banners of the respective retailer.

Lease Maturity Profile

The Company's lease maturity profile for its shopping centre portfolio as at December 31, 2017, excluding any contractual renewal options, is as follows:

Maturity Date	Number of Stores	Occupied Square Feet (thousands)	Percent of Total Square Feet	Annualized Minimum Rent at Expiration (thousands)	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month tenants [1]	147	281	1.2%	$ 5,188	1.1%	$ 18.47
2018	666	2,506	10.4%	44,118	9.3%	17.61
2019	669	2,858	11.9%	53,918	11.4%	18.87
2020	612	2,681	11.2%	53,006	11.2%	19.77
2021	530	2,518	10.5%	50,919	10.8%	20.22
2022	606	3,188	13.3%	67,344	14.2%	21.12
2023	307	2,216	9.2%	40,174	8.5%	18.13
2024	179	1,085	4.5%	23,345	4.9%	21.53
2025	189	998	4.2%	24,218	5.1%	24.26
2026	163	939	3.9%	24,881	5.3%	26.49
2027	177	1,139	4.7%	26,714	5.7%	23.45
2028	65	718	3.0%	16,922	3.6%	23.57
Thereafter	90	1,930	8.1%	42,309	8.9%	21.91
Total or Weighted Average [2]	4,400	23,057	96.1%	$ 473,056	100.0%	$ 20.52

[1] Includes tenants on over hold including renewals and extensions under negotiation, month-to-month tenants and tenants in space at properties with future redevelopment.

[2] At the Company's ownership interest, excluding MMUR.

The weighted average remaining lease term for the portfolio was 6.3 years as at December 31, 2017, excluding contractual renewal options, but including month-to-month and other short-term leases with tenants in properties with pre-development activities underway.

Loans, Mortgages and Other Real Estate Assets

As at	**December 31, 2017**	December 31, 2016
Non-current		
Loans and mortgages receivable (a)	**$ 130,576**	$ 131,955
Available-for-sale investment in limited partnership	**2,587**	3,824
Deposit on investment property	**—**	189,200
Total non-current	**$ 133,163**	$ 324,979
Current		
Loans and mortgages receivable (a)	**125,265**	15,347
Fair value through profit or loss ("FVTPL") investments in securities (b)	**21,720**	12,969
Total current	**$ 146,985**	$ 28,316
Total	**$ 280,148**	$ 353,295

(a) Loans and mortgages receivable are primarily secured by interests in investment properties or shares of entities owning investment properties.

(b) The Company has invested in publicly traded real estate and related securities. These securities are recorded at market value. Realized and unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses).

RESULTS OF OPERATIONS

Fourth Quarter Consolidated Results

	Three months ended December 31		Year ended December 31	
(thousands of dollars, except per share amounts)	**2017**	2016	**2017**	2016
Property rental revenue	**$ 177,206**	$ 172,731	**$ 694,459**	$ 676,284
Property operating costs	**65,869**	66,425	**256,949**	254,287
Net operating income	**111,337**	106,306	**437,510**	421,997
Other income and expenses				
Interest and other income	**7,586**	7,153	**28,401**	19,641
Interest expense	**(39,851)**	(40,406)	**(157,411)**	(158,687)
Corporate expenses	**(9,287)**	(10,051)	**(36,442)**	(34,910)
Abandoned transaction costs	**(42)**	(160)	**(151)**	(321)
Amortization expense	**(503)**	(369)	**(1,963)**	(1,287)
Share of profit from joint ventures	**6,966**	2,983	**42,860**	12,437
Other gains (losses) and (expenses)	**1,180**	312	**(1,906)**	(586)
Increase (decrease) in value of investment properties, net	**17,010**	12,092	**458,363**	218,078
	(16,941)	(28,446)	**331,751**	54,365
Income before income taxes	**94,396**	77,860	**769,261**	476,362
Deferred income taxes	**17,627**	19,177	**125,101**	90,570
Net income	**$ 76,769**	$ 58,683	**$ 644,160**	$ 385,792
Net income attributable to:				
Common shareholders	**$ 74,833**	$ 57,739	**$ 633,089**	$ 382,714
Non-controlling interest	**1,936**	944	**11,071**	3,078
	$ 76,769	$ 58,683	**$ 644,160**	$ 385,792
Net income per share attributable to common shareholders:				
Basic	**$ 0.31**	$ 0.24	**$ 2.59**	$ 1.62
Diluted	**$ 0.30**	$ 0.24	**$ 2.55**	$ 1.59

For the three months ended December 31, 2017, net income attributable to common shareholders was $74.8 million or $0.30 per diluted share compared to $57.7 million or $0.24 per diluted share for the prior year. The $17.1 million increase in net income attributable to common shareholders, was primarily due to a higher NOI of $5.0 million, a higher increase in the fair value of investment properties of $4.9 million, and a higher share of profit from joint ventures of $4.0 million compared to the prior year.

For the year ended December 31, 2017, net income attributable to common shareholders was $633.1 million or $2.55 per diluted share compared to $382.7 million or $1.59 per diluted share for the prior year. The $250.4 million increase in net income attributable to common shareholders, was primarily due to an increase of $205.8 million in the fair value of investment properties, net of the $34.5 million increase in deferred income taxes, higher share of profit from joint ventures of $30.4 million, primarily due to fair value gains recognized in MMUR, and higher NOI of $15.5 million compared to the prior year.

Net Operating Income

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

	Three months ended December 31			Year ended December 31		
	% change	**2017**	2016	**% change**	**2017**	2016
Property rental revenue						
Base rent		**$ 94,280**	$ 92,465		**$ 373,306**	$ 367,104
Operating cost recoveries		**21,635**	21,951		**84,639**	82,002
Realty tax recoveries		**28,612**	28,029		**115,101**	111,882
Lease surrender fees		**170**	269		**1,535**	1,833
Percentage rent		**801**	1,163		**2,272**	2,348
Prior year operating cost and tax recovery adjustments		**(561)**	(99)		**(1,698)**	(150)
Temporary tenants, storage, parking and other		**3,158**	2,872		**11,313**	10,403
Total Same Property rental revenue		**148,095**	146,650		**586,468**	575,422
Property operating costs						
Recoverable operating expenses		**24,471**	24,397		**93,659**	90,658
Recoverable realty tax expense		**31,515**	30,377		**124,870**	121,273
Prior year realty tax expense		**(1,544)**	(51)		**(3,334)**	(628)
Other operating costs and adjustments		**(276)**	(6)		**(1,980)**	10
Total Same Property operating costs		**54,166**	54,717		**213,215**	211,313
Total Same Property NOI [(1)]	**2.2%**	**$ 93,929**	$ 91,933	**2.5%**	**$ 373,253**	$ 364,109
Major redevelopment		**9,234**	7,914		**37,008**	33,508
Ground-up development		**931**	478		**2,722**	503
Acquisitions – 2017		**816**	—		**1,132**	—
Acquisitions – 2016		**3,331**	2,964		**13,557**	8,105
Investment properties classified as held for sale		**1,173**	1,213		**4,869**	4,902
Dispositions – 2017		**38**	772		**1,666**	2,685
Dispositions – 2016		**41**	89		**68**	1,970
Straight-line rent adjustment		**1,566**	881		**2,684**	5,848
Development land		**278**	62		**551**	367
NOI [(1)]	**4.7%**	**$ 111,337**	106,306	**3.7%**	**$ 437,510**	$ 421,997
NOI margin		**62.8%**	61.5%		**63.0%**	62.4%

(1) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

For the three months and year ended December 31, 2017, total NOI increased by $5.0 million and $15.5 million, respectively, compared to the prior years primarily due to SP NOI growth and contributions from major and ground-up redevelopment projects. NOI margins have increased by 1.3% and 0.6%, respectively, for the three months and year ended December 31, 2017 compared to the same prior year periods primarily due to higher base rent, savings related to prior year realty tax expenses, and lower operating costs.

Same Property NOI Growth

The components of SP NOI growth and comparisons to prior year are as follows:

	Three months ended December 31		Year ended December 31	
	2017	2016 [(1)]	**2017**	2016 [(1)]
Same Property – Stable	**2.0%**	1.1%	**2.0%**	0.8%
Same Property with redevelopment	**3.4%**	10.5%	**5.4%**	3.9%
Total Same Property NOI Growth	**2.2%**	2.2%	**2.5%**	1.1%

(1) Prior periods as reported; not restated to reflect current period property categories.

For the three months and year ended December 31, 2017, SP NOI increased 2.2% or $2.0 million and 2.5% or $9.1 million, respectively, primarily due to rent escalations and pad developments coming online, and lower operating costs.

NOI by Region

NOI is presented by region as follows:

Three months ended December 31, 2017	**Central Region**	**Eastern Region**	**Western Region**	**Other [(1)]**	**Total**
Property rental revenue	**$ 74,621**	**$ 45,394**	**$ 57,809**	**$ (618)**	**$ 177,206**
Property operating costs	**29,213**	**19,317**	**18,729**	**(1,390)**	**65,869**
NOI	**$ 45,408**	**$ 26,077**	**$ 39,080**	**$ 772**	**$ 111,337**

Three months ended December 31, 2016	Central Region	Eastern Region	Western Region	Other [(1)]	Total
Property rental revenue	$ 72,100	$ 44,601	$ 56,826	$ (796)	$ 172,731
Property operating costs	29,282	19,132	18,967	(956)	66,425
NOI	$ 42,818	$ 25,469	$ 37,859	$ 160	$ 106,306

Year ended December 31, 2017	**Central Region**	**Eastern Region**	**Western Region**	**Other [(1)]**	**Total**
Property rental revenue	**$ 288,416**	**$ 180,856**	**$ 227,966**	**$ (2,779)**	**$ 694,459**
Property operating costs	**108,493**	**78,048**	**75,910**	**(5,502)**	**256,949**
NOI	**$ 179,923**	**$ 102,808**	**$ 152,056**	**$ 2,723**	**$ 437,510**

Year ended December 31, 2016	Central Region	Eastern Region	Western Region	Other [(1)]	Total
Property rental revenue	$ 280,569	$ 177,304	$ 221,480	$ (3,069)	$ 676,284
Property operating costs	108,496	76,982	73,010	(4,201)	254,287
NOI	$ 172,073	$ 100,322	$ 148,470	$ 1,132	$ 421,997

(1) Other items principally consist of intercompany eliminations.

Interest and Other Income

For the three months and year ended December 31, 2017, the Company's interest and other income totaled $7.6 million and $28.4 million, compared to $7.2 million and $19.6 million, respectively, for the same prior year periods. The increase of $8.8 million over prior year was primarily due to higher loans, deposits and mortgages outstanding as well as non-recurring commitment fees earned on new loans.

Interest Expense

The Company’s interest expense by type is as follows:

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Mortgages	**$ 11,525**	$ 11,767	**$ 47,244**	$ 47,724
Credit facilities	**3,435**	1,409	**10,890**	6,641
Senior unsecured debentures	**30,071**	29,602	**115,798**	112,023
Convertible debentures	**730**	3,192	**5,150**	14,603
Interest capitalized	**(5,910)**	(5,564)	**(21,671)**	(22,304)
Interest expense	**$ 39,851**	$ 40,406	**$ 157,411**	$ 158,687

For the three months ended December 31, 2017, interest expense decreased by $0.6 million primarily due to the early redemption of higher rate convertible debentures completed earlier in the year, partially offset by higher draws on the Company's credit facilities.

For the year ended December 31, 2017, interest expense decreased by $1.3 million primarily due to the early redemption of higher rate convertible debentures, partially offset by the impact of new lower rate senior unsecured debenture issuances and higher draws on the Company's credit facilities.

During the year ended December 31, 2017 and 2016, approximately 12.1% or $21.7 million, and 12.3% or $22.3 million, respectively, of interest expense was capitalized to real estate investments for properties undergoing development or redevelopment projects. Amounts capitalized are dependent on interest expense paid, on the phase and magnitude of development and redevelopment projects actively underway as well as the portfolio weighted average interest rate.

Corporate Expenses

The Company's corporate expenses is as follows:

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Salaries, wages and benefits	**$ 6,743**	$ 7,517	**$ 27,756**	$ 26,485
Non-cash compensation	**1,128**	1,004	**4,258**	3,469
Other corporate costs	**3,166**	3,194	**11,630**	11,393
Total corporate expenses	**11,037**	11,715	**43,644**	41,347
Amounts capitalized to investment properties under development	**(1,750)**	(1,664)	**(7,202)**	(6,437)
Corporate expenses	**$ 9,287**	$ 10,051	**$ 36,442**	$ 34,910

For the year ended December 31, 2017, corporate expenses increased by $1.5 million to $36.4 million compared to the prior year primarily due to higher employee compensation expense including non-cash compensation, of $2.1 million related to new and vacant roles being filled. Other corporate costs were higher by $0.2 million over the prior year primarily due to higher professional fees.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development, including salaries and related costs for planning, zoning, construction and so forth, are capitalized in accordance with IFRS to development projects as incurred. During the year ended December 31, 2017 and 2016, approximately 16.5% or $7.2 million and 15.6% or $6.4 million, respectively, of compensation-related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment projects. Amounts capitalized are based on development and pre-development projects underway. Changes in capitalized corporate expenses are primarily the result of timing of completion of development and redevelopment projects and the Company's current level of overall development activity.

Other Gains (Losses) and (Expenses)

The Company's other gains, losses and expenses is as follows:

Three months ended December 31	**2017**		2016	
	Consolidated Statement of Income	**Included in FFO**	Consolidated Statement of Income	Included in FFO
Realized gain (loss) on sale of marketable securities	**$ (1,165)**	**$ (1,165)**	$ —	$ —
Unrealized gain (loss) on marketable securities	**$ 1,408**	**$ 1,408**	$ (123)	$ (123)
Net gain (loss) on prepayments of debt	**312**	**312**	(10)	(10)
Proceeds from Target	**474**	**474**	663	663
Investment properties selling costs	**(113)**	**—**	(276)	—
Other	**264**	**263**	58	55
Total	**$ 1,180**	**$ 1,292**	$ 312	$ 585

Year ended December 31	**2017**		2016	
	Consolidated Statement of Income	**Included in FFO**	Consolidated Statement of Income	Included in FFO
Realized gain (loss) on sale of marketable securities	**$ (1,165)**	**$ (1,165)**	$ 79	$ 79
Unrealized gain (loss) on marketable securities	**3,313**	**3,313**	1,071	1,071
Net gain (loss) on prepayments of debt	**(3,032)**	**(3,032)**	(1,119)	(1,119)
Proceeds from Target	**474**	**474**	3,813	3,813
Investment properties selling costs	**(1,667)**	**—**	(2,435)	—
Restructuring costs	**—**	**—**	(1,988)	(1,988)
Other	**171**	**170**	(7)	(43)
Total	**$ (1,906)**	**$ (240)**	$ (586)	$ 1,813

For the three months ended December 31, 2017, the Company recognized $1.2 million in other gains and expenses in its consolidated statement of income compared to $0.3 million in other gains and expenses in 2016. For the year ended December 31, 2017, the Company recognized $1.9 million in other losses and expenses in its consolidated statement of income compared to $0.6 million in other losses and expenses in the prior year. The higher loss for the year ended December 31, 2017 over the prior year was primarily due to non-cash losses on the early redemptions of the 5.40% Series E, 5.25% Series F, and the 4.75% Series I convertible debentures in 2017, as well as the lower proceeds received under Target Canada's CCAA plan of arrangement related to the closure of two Target stores in the Company's portfolio.

Income Taxes

For the three months and year ended December 31, 2017, deferred income tax expense totaled $17.6 million and $125.1 million, compared to $19.2 million and $90.6 million respectively, over the same prior year periods. The increase of $34.5 million over prior year is primarily due to the tax impact of changes in the fair value of investment properties over prior year.

CAPITAL STRUCTURE AND LIQUIDITY

Total Capital Employed

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 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.

As at	**December 31, 2017**	December 31, 2016
Liabilities (principal amounts outstanding)		
Bank indebtedness	**$ 3,144**	$ 15,914
Mortgages	**1,060,342**	995,925
Credit facilities	**581,627**	251,481
Mortgages under equity accounted joint ventures (at the Company's proportionate interest) [1]	**41,987**	45,612
Credit facilities under equity accounted joint venture (at the Company's proportionate interest) [1]	**72,830**	56,798
Senior unsecured debentures	**2,600,000**	2,550,000
Convertible debentures	**55,093**	212,635
Equity capitalization [2]		
Common shares (based on closing per share price of $20.72; December 31, 2016 – $20.67)	**5,064,612**	5,033,286
Enterprise value [1]	**$ 9,479,635**	$ 9,161,651

[1] Refer to the "Non-IFRS Financial Measures" section of this MD&A.
[2] Equity capitalization is the market value of the Company's shares outstanding at a point in time. The measures is not defined by IFRS, does not have a standard definition and, as such, may not be comparable to similar measures disclosed by other issuers.

Key Metrics

The ratios below include measures not specifically defined in IFRS.

As at	**December 31, 2017**	December 31, 2016
Weighted average effective interest rate on mortgages and senior unsecured debentures	**4.4%**	4.5%
Weighted average maturity on mortgages and senior unsecured debentures (years)	**5.4**	5.3
Net debt to total assets [1]	**43.4%**	42.6%
Net debt to Adjusted EBITDA [1]	**9.7**	9.1
Unencumbered aggregate assets [1]	**7,374,086**	6,627,091
Unencumbered aggregate assets to unsecured debt, based on fair value [1]	**2.4**	2.4
Adjusted EBITDA interest coverage [1]	**2.5**	2.5

[1] Calculated with joint ventures proportionately consolidated in accordance with the Company's debt covenants. Refer to the "Non-IFRS Financial Measures" section of this MD&A.

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 the Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares;
- Net debt is calculated as Debt, as defined above, reduced by cash balances at the end of the period;
- Adjusted EBITDA, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the fair value of investment properties, other gains (losses) and (expenses) and other non-cash or non-recurring items. The Company also adjusts for incremental leasing costs which is a recognized adjustment to FFO, in accordance with the recommendations of REALPAC.
- Unencumbered assets include the value of assets that have not been pledged as security under any credit agreement or mortgage. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt, which consists of the bank indebtedness, unsecured credit facilities and senior unsecured debentures.

Credit Ratings

Since November 2012, DBRS has rated the Company's senior unsecured debentures as BBB (high) with a stable trend. According to DBRS, a credit rating in the BBB category is generally an indication of adequate credit quality and an acceptable capacity for the payment of financial obligations. DBRS indicates that BBB rated obligations may be vulnerable to future events. A rating trend, expressed as positive, stable or negative, provides guidance in respect of DBRS' opinion regarding the outlook for the rating in question.

Since November 2012, Moody's has rated the Company's senior unsecured debentures as Baa2 with a stable outlook. 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.

Outstanding Debt and Principal Maturity Profile

The maturity profile of the Company's mortgages and credit facilities as well as its senior unsecured debentures as at December 31, 2017 is summarized in the table below:

	Mortgages	Credit Facilities/Bank Indebtedness	Senior Unsecured Debentures	Total	% Due
2018	$ 151,529	$ 23,072	$ 150,000	$ 324,601	7.7%
2019	131,333	72,828	150,000	354,161	8.4%
2020	90,318	147,012	175,000	412,330	9.7%
2021	94,031	—	175,000	269,031	6.3%
2022	163,665	341,859	450,000	955,524	22.5%
2023	13,920	—	300,000	313,920	7.4%
2024	74,721	—	300,000	374,721	8.8%
2025	66,826	—	300,000	366,826	8.6%
2026	154,094	—	300,000	454,094	10.7%
2027	81,905	—	300,000	381,905	9.0%
2028	38,000	—	—	38,000	0.9%
	1,060,342	584,771	2,600,000	4,245,113	100.0%
Add (deduct): unamortized deferred financing costs, premiums and discounts, net	(3)	—	(4,034)	(4,037)	
Total	$ 1,060,339	$ 584,771	$ 2,595,966	$ 4,241,076	

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. The Company also intends to maintain financial strength to support a reasonable 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.

Mortgages

The changes in the Company's mortgages during the year ended December 31, 2017 are set out below:

Year ended December 31, 2017	Amount	Weighted Average Effective Interest Rate
Balance at beginning of period	$ 997,165	4.3%
Mortgage borrowings	152,273	3.6%
Mortgages assumed on acquisition	23,793	2.8%
Mortgage repayments	(82,926)	4.1%
Scheduled amortization on mortgages	(28,723)	—
Amortization of financing costs and net premium	(1,243)	—
Balance at end of period	$ 1,060,339	4.3%

As at December 31, 2017, 100% (December 31, 2016 – 100%) of the outstanding mortgages bore interest at fixed interest rates. The average remaining term of mortgages outstanding increased from 4.4 years as at December 31, 2016 on $1.0 billion of mortgages to 4.7 years as at December 31, 2017 on $1.1 billion of mortgages after reflecting borrowing activity and repayments during the period.

Mortgage Maturity Profile

The maturity profile of the Company's mortgages as at December 31, 2017 is summarized in the table below:

As at December 31, 2017	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2018	$ 27,117	$ 124,412	151,529	5.5%
2019	24,619	106,714	131,333	6.5%
2020	22,425	67,893	90,318	4.4%
2021	20,634	73,397	94,031	4.8%
2022	15,711	147,954	163,665	3.9%
2023	13,920	—	13,920	N/A
2024	13,451	61,270	74,721	4.0%
2025	10,931	55,895	66,826	3.5%
2026	6,036	148,058	154,094	3.2%
2027	2,041	79,864	81,905	3.6%
2028	109	37,891	38,000	3.6%
	$ 156,994	$ 903,348	$ 1,060,342	4.3%
Add: unamortized deferred financing costs and premiums and discounts, net			(3)	
Total			$ 1,060,339	

Credit Facilities

The credit facilities provide liquidity primarily for financing acquisitions, development and redevelopment activities and for general corporate purposes.

The Company has the flexibility under its unsecured credit facilities to draw funds based on Canadian bank prime rates and Canadian bankers' acceptances ("BA rates") for Canadian dollar-denominated borrowings, and LIBOR rates or U.S. prime rates for U.S. dollar-denominated borrowings. As of December 31, 2017, the Company had drawn US$387.2 million, as well as CAD$3.1 million in bank indebtedness on its unsecured credit facilities. Concurrently with the U.S. dollar draws, the Company entered into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

During the second quarter, the Company extended the maturity of its $800 million unsecured facility to June 30, 2022 on substantially the same terms. During the third quarter, the Company completed an extension of one of its secured construction facilities from September 29, 2017 to March 31, 2018. In the fourth quarter, the Company also extended the maturity of its $115 million secured facility to February 13, 2019 on substantially the same terms.

The Company's credit facilities, including its proportionate share of facilities under the equity accounted joint ventures, as at December 31, 2017 are summarized in the table below:

As at December 31, 2017	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Unsecured operating facilities						
Revolving facility maturing 2022 [1]	$ 800,000	$ (338,715)	$ (22,494)	$ 438,791	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	June 30, 2022
Non-revolving facility maturing 2020 [2]	150,000	(147,012)	(13,932)	—	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	October 31, 2020
Secured construction facilities						
Maturing 2019	115,000	(60,953)	(1,475)	52,572	BA + 1.125% or Prime + 0.125%	February 13, 2019
Maturing 2018	15,907	(15,572)	—	335	BA + 1.125% or Prime + 0.125%	March 31, 2018
Credit facilities under equity accounted joint ventures	84,663	(72,830)	—	11,833	Between Prime - 0.15% and Prime + 1.5%	Between January 2018 and February 2020
Secured Facilities						
Maturing 2019	11,875	(11,875)	—	—	BA + 1.125% or Prime + 0.125%	September 27, 2019
Maturing 2018	7,500	(7,500)	—	—	BA + 1.125% or Prime + 0.125%	September 6, 2018
Total	$ 1,184,945	$ (654,457)	$ (37,901)	$ 503,531		

[1] The Company had drawn in U.S. dollars the equivalent of CAD$346.1 million which was revalued at CAD$338.7 million as at December 31, 2017.

[2] The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$147.0 million as at December 31, 2017.

Senior Unsecured Debentures

As at December 31, 2017			Interest Rate		Remaining Term to Maturity	Principal Outstanding
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	(years)	
J	August 30, 2018	February 28, August 30	5.25%	5.66%	0.7	50,000
K	November 30, 2018	May 31, November 30	4.95%	5.17%	0.9	100,000
L	July 30, 2019	January 30, July 30	5.48%	5.61%	1.6	150,000
M	April 30, 2020	April 30, October 30	5.60%	5.60%	2.3	175,000
N	March 1, 2021	March 1, September 1	4.50%	4.63%	3.2	175,000
O	January 31, 2022	January 31, July 31	4.43%	4.59%	4.1	200,000
P	December 5, 2022	June 5, December 5	3.95%	4.18%	4.9	250,000
Q	October 30, 2023	April 30, October 30	3.90%	3.97%	5.8	300,000
R	August 30, 2024	August 30, February 28	4.79%	4.72%	6.7	300,000
S	July 31, 2025	January 31, July 31	4.32%	4.24%	7.6	300,000
T	May 6, 2026	November 5, May 5	3.60%	3.56%	8.4	300,000
U	July 12, 2027	January 12, July 12	3.75%	3.82%	9.5	300,000
	Weighted Average or Total		4.36%	4.42%	5.7	$ 2,600,000

On July 10, 2017, the Company completed the issuance of $300 million principal amount of Series U senior unsecured debentures due July 12, 2027. These debentures bear interest at a coupon rate of 3.753% per annum, payable semi-annually commencing January 12, 2018.

Convertible Debentures

As at December 31, 2017									
			Interest Rate						
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	Remaining Term to Maturity (yrs)	Principal at Issue Date	**Principal**	**Liability**	**Equity**
J	February 28, 2020	March 31 September 30	4.45%	5.34%	2.2	57,500	55,093	54,293	386
	Weighted Average or Total		4.45%	5.34%	2.2	$ 57,500	$ 55,093	$ 54,293	$ 386

(i) Interest

During the year ended December 31, 2017, 0.1 million common shares (year ended December 31, 2016 – 0.7 million common shares) were issued totaling $2.4 million (year ended December 31, 2016 – $13.6 million) to pay accrued interest to holders of convertible debentures.

During the year ended December 31, 2017, the Company also paid $3.9 million (year ended December 31, 2016 – $0.1 million) in cash to pay accrued interest to holders of convertible debentures.

(ii) Principal Redemption

On January 31, 2017, the Company redeemed its remaining 5.40% Series E and 5.25% Series F convertible debentures at par. The full redemption price and any accrued interest owing on each series of convertible debentures was satisfied in cash.

On August 1, 2017, the Company redeemed its remaining 4.75% Series I convertible debentures at par. The full redemption price and any accrued interest owing on the convertible debentures was satisfied in cash.

(iii) Normal Course Issuer Bid ("NCIB")

Effective August 29, 2016, the Company renewed its normal course issuer bid ("NCIB") for all of its then outstanding series of convertible debentures. The NCIB expired on August 28, 2017 and was not renewed by the Company. All purchases made under the NCIB were at market prices prevailing at the time of purchase determined by or on behalf of the Company.

For the year ended December 31, 2017 and 2016, principal amounts of convertible debentures purchased and amounts paid for the purchases are summarized in the table below:

Year ended December 31				**2017**				2016
		Principal Amount Purchased		**Amount Paid**		Principal Amount Purchased		Amount Paid
Total	**$**	**110**	**$**	**112**	$	4,048	$	4,102

Shareholders' Equity

Shareholders' equity amounted to $4.6 billion as at December 31, 2017, compared to $4.2 billion as at December 31, 2016. During the year ended December 31, 2017, a total of 0.9 million common shares were issued as follows: 0.8 million shares from the exercise of common share options and settlement of restricted, performance, and deferred share units, and 0.1 million shares for interest payments on convertible debentures.

As at February 12, 2018, there were 244.5 million common shares outstanding.

Share Purchase Options

As at December 31, 2017, the Company had 4.1 million share purchase options outstanding, with an average exercise price of $18.74, which, if exercised, would result in the Company receiving proceeds of $77.5 million.

Liquidity

Liquidity risk exists due to the possibility of the Company not being able to generate sufficient cash flow, and/or not having access to sufficient debt and equity capital to fund its ongoing operations and growth and to refinance or meet existing payment obligations. The Company manages its liquidity risk by staggering debt maturities, renegotiating expiring credit arrangements proactively, using revolving credit facilities, maintaining a large pool of unencumbered assets, and issuing equity when deemed appropriate.

Sources of liquidity primarily consist of cash flow from operations, cash and cash equivalents, and available capacity under the Company's existing revolving credit facilities. If necessary, the Company is also able to obtain financing on its unencumbered assets. The following table summarizes the Company's liquidity position:

As at (millions of dollars)		**December 31, 2017**		December 31, 2016
Total available under credit facilities	**$**	**504**	$	809
Cash and cash equivalents	**$**	**12**	$	12
Unencumbered aggregate assets	**$**	**7,374**	$	6,627

The Company has historically used mortgages, credit facilities, senior unsecured debentures, convertible debentures and equity issuances to finance its growth and repay debt. 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 view of the appropriate leverage for the business. 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.

Planned and completed financings subsequent to December 31, 2017, and availability on existing credit facilities, address substantially all of the contractual 2018 debt maturities and contractually committed costs to complete current development projects.

Cash Flows

Cash flow from operating activities represents the Company's primary source of liquidity for servicing debt and funding planned revenue sustaining expenditures, corporate expenses and dividends to shareholders. Interest and other income and cash on hand are other sources of liquidity.

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Cash provided by operating activities	**$ 107,364**	$ 96,950	**$ 270,159**	$ 256,598
Cash provided by financing activities	**3,516**	(80,571)	**67,987**	326,958
Cash used in investing activities	**(101,182)**	(101,475)	**(326,086)**	(570,217)
Net change in cash and cash equivalents	**$ 9,698**	$ (85,096)	**$ 12,060**	$ 13,339

The following table presents the excess of cash provided by operating activities over dividends declared:

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Cash provided by operating activities	**$ 107,364**	$ 96,950	**$ 270,159**	$ 256,598
Dividends declared	**(52,700)**	(52,474)	**(210,433)**	(204,233)
Excess of cash provided by operating activities over dividends declared	**54,664**	44,476	**59,726**	52,365

Cash provided by operating activities exceeded dividends declared for all periods reported.

Contractual Obligations

An analysis of the Company’s contractual maturities of its material financial liabilities and other contractual commitments, as at December 31, 2017 is set out below:

As at December 31, 2017	Payments due by period				
	2018	2019 to 2020	2021 to 2022	Thereafter	Total
Scheduled mortgage principal amortization	$ 27,117	$ 47,044	$ 36,345	$ 46,488	$ 156,994
Mortgage principal repayments on maturity	124,412	174,607	221,351	382,978	903,348
Credit facilities and bank indebtedness	23,072	219,840	341,859	—	584,771
Senior unsecured debentures	150,000	325,000	625,000	1,500,000	2,600,000
Convertible debentures	55,093	—	—	—	55,093
Interest obligations [(1)]	167,553	281,336	205,049	200,174	854,112
Land leases (expiring between 2023 and 2061)	1,188	2,290	2,208	18,413	24,099
Contractually committed costs to complete current development projects	73,654	4,398	—	—	78,052
Other committed costs	6,291	15,714	—	—	22,005
Total contractual obligations	$ 628,380	$ 1,070,229	$ 1,431,812	$ 2,148,053	$ 5,278,474

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2017 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

The Company has $38.0 million of bank overdrafts and outstanding letters of credit issued by financial institutions to support certain of the Company’s contractual obligations.

The Company’s estimated cost to complete properties currently under development is $149.0 million, of which $78.1 million is contractually committed. The balance of the costs to complete will only be committed once leases are signed and/or construction is 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 contingencies, 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 $126.9 million (December 31, 2016 – $108.1 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.

NON-IFRS RECONCILIATIONS AND FINANCIAL MEASURES

Reconciliation of Consolidated Balance Sheets to the Company's Proportionate Interest

The following table provides a reconciliation of the Company's consolidated balance sheets, as presented in its audited annual consolidated financial statements to its proportionate interest.

As at	**December 31, 2017**			December 31, 2016		
	Consolidated Balance Sheet [1]	**Adjustments for Proportionate Interest**	**Proportionate Interest**	Consolidated Balance Sheet [1]	Adjustments for Proportionate Interest	Proportionate Interest
ASSETS						
Investment properties – shopping centres	**$ 9,226,206**	**$ 78,775**	**$ 9,304,981**	$ 8,370,298	$ 111,087	$ 8,481,385
Investment properties – development land	**72,041**	**27,240**	**99,281**	67,149	88,878	156,027
Residential development inventory	**5,483**	**10,219**	**15,702**	5,010	6,117	11,127
Loans, mortgages and other real estate assets	**280,148**	**2,849**	**282,997**	353,295	3,646	356,941
Cash and cash equivalents	**11,507**	**1,753**	**13,260**	12,217	2,118	14,335
Amounts receivable	**25,437**	**376**	**25,813**	21,175	60	21,235
Other assets	**47,387**	**1,570**	**48,957**	45,937	655	46,592
Investment in joint ventures	**202,231**	**(202,231)**	**—**	146,422	(146,422)	—
Investment properties classified as held for sale	**98,112**	**150,107**	**248,219**	83,050	—	83,050
Total assets	**$ 9,968,552**	**$ 70,658**	**$10,039,210**	$ 9,104,553	$ 66,139	$ 9,170,692
LIABILITIES						
Mortgages	**$ 1,053,260**	**$ 41,772**	**$ 1,095,032**	$ 987,175	$ 45,373	$ 1,032,548
Credit facilities	**581,627**	**12,195**	**593,822**	251,481	56,798	308,279
Bank indebtedness	**3,144**	**—**	**3,144**	15,914	—	15,914
Senior unsecured debentures	**2,595,966**	**—**	**2,595,966**	2,546,442	—	2,546,442
Convertible debentures	**54,293**	**—**	**54,293**	207,633	—	207,633
Deferred tax liabilities	**720,431**	**—**	**720,431**	593,293	—	593,293
Debt secured by investment properties held for sale	**7,079**	**60,635**	**67,714**	9,990	—	9,990
Accounts payable and other liabilities	**257,068**	**4,669**	**261,737**	259,542	1,788	261,330
Total liabilities	**5,272,868**	**119,271**	**5,392,139**	4,871,470	103,959	4,975,429
EQUITY						
Shareholders' equity	**4,647,071**	**—**	**4,647,071**	4,195,263	—	4,195,263
Non-controlling interest	**48,613**	**(48,613)**	**—**	37,820	(37,820)	—
Total equity	**4,695,684**	**(48,613)**	**4,647,071**	4,233,083	(37,820)	4,195,263
Total liabilities and equity	**$ 9,968,552**	**$ 70,658**	**$10,039,210**	$ 9,104,553	$ 66,139	$ 9,170,692

[1] The consolidated balance sheets have been presented on a non-classified basis for purposes of this reconciliation.

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

The following table provides a reconciliation of the Company's consolidated statements of income for the three months ended December 31, 2017, to its proportionate interest.

Three months ended December 31			**2017**			2016
	Consolidated Statements of Income	**Adjustment to proportionate interest**	**Proportionate interest [1]**	Consolidated Statements of Income	Adjustment to proportionate interest	Proportionate interest [1]
Property rental revenue	**$ 177,206**	**$ 2,360**	**$ 179,566**	$ 172,731	$ 2,185	$ 174,916
Property operating costs	**65,869**	**721**	**66,590**	66,425	737	67,162
Net operating income	**111,337**	**1,639**	**112,976**	106,306	1,448	107,754
Other income and expenses						
Interest and other income	**7,586**	**(33)**	**7,553**	7,153	(123)	7,030
Interest expense	**(39,851)**	**(669)**	**(40,520)**	(40,406)	(538)	(40,944)
Corporate expenses	**(9,287)**	**141**	**(9,146)**	(10,051)	289	(9,762)
Abandoned transaction costs	**(42)**	**1**	**(41)**	(160)	—	(160)
Amortization expense	**(503)**	**—**	**(503)**	(369)	—	(369)
Share of profit from joint ventures	**6,966**	**(6,966)**	**—**	2,983	(2,983)	—
Other gains (losses) and (expenses)	**1,180**	**—**	**1,180**	312	319	631
Increase (decrease) in value of investment properties, net	**17,010**	**3,951**	**20,961**	12,092	651	12,743
	(16,941)	**(3,575)**	**(20,516)**	(28,446)	(2,385)	(30,831)
Income before income taxes	**94,396**	**(1,936)**	**92,460**	77,860	(937)	76,923
Deferred income taxes	**17,627**	**—**	**17,627**	19,177	7	19,184
Net income	**$ 76,769**	**$ (1,936)**	**$ 74,833**	$ 58,683	$ (944)	$ 57,739
Net income attributable to:						
Common shareholders	**$ 74,833**	**$ —**	**$ 74,833**	$ 57,739	$ —	$ 57,739
Non-controlling interest	**1,936**	**(1,936)**	**—**	944	(944)	—
	$ 76,769	**$ (1,936)**	**$ 74,833**	$ 58,683	$ (944)	$ 57,739
Net income per share attributable to common shareholders:						
Basic	**$ 0.31**			$ 0.24		
Diluted	**$ 0.30**			$ 0.24		

[1] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

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

Year ended December 31			2017			2016
	Consolidated Statements of Income	**Adjustment for proportionate interest**	**Proportionate interest [1]**	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest [1]
Property rental revenue	**$ 694,459**	**$ 9,101**	**$ 703,560**	$ 676,284	$ 7,938	$ 684,222
Property operating costs	**256,949**	**3,193**	**260,142**	254,287	2,632	256,919
Net operating income	**437,510**	**5,908**	**443,418**	421,997	5,306	427,303
Other income and expenses						
Interest and other income	**28,401**	**449**	**28,850**	19,641	(223)	19,418
Interest expense	**(157,411)**	**(2,466)**	**(159,877)**	(158,687)	(1,985)	(160,672)
Corporate expenses	**(36,442)**	**990**	**(35,452)**	(34,910)	1,069	(33,841)
Abandoned transaction costs	**(151)**	**(10)**	**(161)**	(321)	(6)	(327)
Amortization expense	**(1,963)**	**—**	**(1,963)**	(1,287)	—	(1,287)
Share of profit from joint ventures	**42,860**	**(42,860)**	**—**	12,437	(12,437)	—
Other gains (losses) and (expenses)	**(1,906)**	**(8)**	**(1,914)**	(586)	369	(217)
Increase (decrease) in value of investment properties, net	**458,363**	**26,940**	**485,303**	218,078	4,831	222,909
	331,751	**(16,965)**	**314,786**	54,365	(8,382)	45,983
Income before income taxes	**769,261**	**(11,057)**	**758,204**	476,362	(3,076)	473,286
Deferred income taxes	**125,101**	**14**	**125,115**	90,570	2	90,572
Net income	**$ 644,160**	**$ (11,071)**	**$ 633,089**	$ 385,792	$ (3,078)	$ 382,714
Net income attributable to:						
Common shareholders	**$ 633,089**	**$ —**	**$ 633,089**	$ 382,714	$ —	$ 382,714
Non-controlling interest	**11,071**	**(11,071)**	**—**	3,078	(3,078)	—
	$ 644,160	**$ (11,071)**	**$ 633,089**	$ 385,792	$ (3,078)	$ 382,714
Net income per share attributable to common shareholders:						
Basic	**$ 2.59**			$ 1.62		
Diluted	**$ 2.55**			$ 1.59		

[1] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

FFO, Operating FFO and ACFO

Funds from Operations

A reconciliation from net income attributable to common shareholders to FFO can be found in the table below:

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Net income attributable to common shareholders	**$ 74,833**	$ 57,739	**$ 633,089**	$ 382,714
Add (deduct):				
(Increase) decrease in value of investment properties [1]	**(20,961)**	(12,743)	**(485,303)**	(222,909)
Incremental leasing costs [2]	**1,049**	1,671	**6,389**	6,657
Investment properties selling costs [1]	**112**	(46)	**1,674**	2,030
Adjustment for equity accounted joint ventures [3]	**525**	1,019	**3,146**	3,480
Deferred income taxes [1]	**17,627**	19,184	**125,115**	90,572
FFO [4]	**$ 73,185**	$ 66,824	**$ 284,110**	$ 262,544

(1) At the Company's proportionate interest.

(2) Adjustment to capitalize incremental leasing costs in accordance with the recommendations of REALPAC.

(3) Adjustment to capitalize interest related to the Company's equity accounted joint ventures in accordance with the recommendations of REALPAC.

(4) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

Operating FFO

The components of Operating FFO and FFO at proportionate interest are as follows:

	Three months ended December 31			Year ended December 31		
	% change	**2017**	2016	% change	**2017**	2016
Net operating income		**$ 112,976**	$ 107,754		**$ 443,418**	$ 427,303
Interest and other income		**7,553**	7,030		**28,850**	19,418
Interest expense [1]		**(39,995)**	(39,925)		**(156,731)**	(157,192)
Corporate expenses [2]		**(8,097)**	(8,091)		**(29,063)**	(27,184)
Abandoned transaction costs		**(41)**	(160)		**(161)**	(327)
Amortization expense		**(503)**	(369)		**(1,963)**	(1,287)
Operating FFO [3]	8.5%	**71,893**	66,239	9.1%	**284,350**	260,731
Other gains (losses) and (expenses) [4]		**1,292**	585		**(240)**	1,813
FFO [3]	9.5%	**$ 73,185**	$ 66,824	8.2%	**$ 284,110**	$ 262,544
Operating FFO per diluted share	8.1%	**$ 0.29**	$ 0.27	5.1%	**$ 1.16**	$ 1.10
FFO per diluted share	9.2%	**$ 0.30**	$ 0.27	4.3%	**$ 1.16**	$ 1.11
Weighted average number of common shares – diluted – FFO (in thousands)	0.4%	**245,422**	244,554	3.8%	**245,153**	236,243

(1) Includes an adjustment to capitalize interest related to the Company's equity accounted joint ventures in accordance with the recommendations of REALPAC.

(2) Includes an adjustment to capitalize incremental leasing costs in accordance with the recommendations of REALPAC.

(3) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

(4) Refer to the "Results of Operations – Other Gains (Losses) and (Expenses)" section of this MD&A.

For the three months ended December 31, 2017, Operating FFO totaled $71.9 million or $0.29 per diluted share compared to $66.2 million or $0.27 per diluted share in the same prior year period. For the year ended December 31, 2017, Operating FFO totaled $284.4 million or $1.16 per diluted share compared to $260.7 million or $1.10 per diluted share for the prior year. The increase over the prior year periods was primarily due to higher NOI and interest and other income, offset by higher corporate expenses.

For the three months ended December 31, 2017, FFO totaled $73.2 million or $0.30 per diluted share compared to $66.8 million or $0.27 per diluted share in the same prior year period. The $6.4 million increase in FFO over the prior year period is primarily due to higher Operating FFO of $5.7 million and higher other gains of $0.4 million due to the appreciation of the Company's marketable securities.

For the year ended December 31, 2017, FFO totaled $284.1 million or $1.16 per diluted share compared to $262.5 million or $1.11 per diluted share for the prior year. The $21.6 million increase in FFO over the prior year is due to higher Operating FFO of $23.6 million, partially offset by the $1.9 million increase in non-cash losses on the early redemptions of the Company's convertible debentures in 2017.

Adjusted Cash Flow from Operations

A reconciliation of cash provided by operating activities to ACFO is presented below:

	Three months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Cash provided by operating activities	**$ 107,364**	$ 96,950	**$ 270,159**	$ 256,598
Add (deduct):				
Working capital adjustments [1]	**(33,544)**	(35,558)	**(1,301)**	(4,262)
Adjustment for equity accounted joint ventures	**1,907**	1,797	**6,168**	5,982
Revenue sustaining capital expenditures	**(6,531)**	(3,793)	**(21,781)**	(13,915)
Recoverable capital expenditures	**(5,114)**	(6,156)	**(9,701)**	(14,057)
Leasing costs on properties under development	**262**	418	**1,597**	1,664
Realized gain (loss) on sale of marketable securities	**(1,165)**	—	**(1,165)**	79
Non-controlling interest	**(178)**	(26)	**(331)**	(104)
ACFO [2]	**$ 63,001**	$ 53,632	**$ 243,645**	$ 231,985

[1] Working capital adjustments primarily include adjustments for prepaid as well as accrued property taxes as their levels vary considerably over the course of the year as well as certain other adjustments as specified by the REALPAC whitepaper on ACFO issued in February 2017.

[2] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

For the three months and year ended December 31, 2017, ACFO totaled $63.0 million and $243.6 million compared to $53.6 million and $232.0 million for the prior year periods, respectively. The increase in ACFO was primarily due to higher NOI and higher interest and other income, partially offset by higher capital expenditures compared to prior year periods.

ACFO Payout Ratio

The Company's ACFO payout ratio for the year ended December 31, 2017 is calculated as follow:

	Year ended December 31, 2017	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**
ACFO [1]	**243,645**	63,001	72,221	58,742	49,681
Cash dividends paid	**209,620**	52,452	52,443	52,395	52,330
ACFO payout ratio [1]	**86.0%**				

[1] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

The Company's ACFO payout ratio for the year ended December 31, 2016 is calculated as follow:

	Year ended December 31, 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
ACFO [1]	231,985	53,470	67,507	63,762	47,246
Cash dividends paid	199,789	52,214	50,554	48,530	48,491
ACFO payout ratio [1]	86.1%				

[1] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

The Company considers a rolling four quarter payout ratio (cash dividends / ACFO) to be more relevant than a payout ratio in any given quarter. For the four quarters ended December 31, 2017, the ACFO payout ratio was 86.0% (December 31, 2016 – 86.1%).

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 are declared 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.

	Three months ended December 31		Year ended December 31	
(in dollars)	**2017**	2016	**2017**	2016
Dividend per common share	**$ 0.215**	$ 0.215	**$ 0.86**	$ 0.86

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 present select consolidating summary information for the Company for the periods identified below presented separately for (i) First Capital Realty (denoted as FCR), as issuer; (ii) guarantor subsidiaries; (iii) non-guarantor subsidiaries; (iv) consolidation adjustments; and (v) the total consolidated amounts.

(millions of dollars)									Year ended December 31	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	FCR [1]		Guarantors [2]		Non-Guarantors [3]		Consolidation Adjustments [4]		Total Consolidated	
Property rental revenue	**$ 290**	$ 285	**$ 407**	$ 407	**$ 6**	$ 9	**$ (9)**	$ (25)	**$ 694**	$ 676
NOI [5]	**195**	178	**244**	224	**3**	4	**(4)**	16	**438**	422
Net income attributable to common shareholders	**633**	383	**462**	324	**40**	15	**(502)**	(339)	**633**	383

(millions of dollars)					As at December 31, 2017
	FCR [1]	Guarantors [2]	Non-Guarantors [3]	Consolidation Adjustments [4]	Total Consolidated
Current assets	**$ 134**	**$ 165**	**$ 232**	**$ (228)**	**$ 303**
Non-current assets	**9,200**	**4,984**	**42**	**(4,560)**	**9,666**
Current liabilities	**483**	**86**	**6**	**(2)**	**573**
Non-current liabilities	**4,154**	**582**	**103**	**(139)**	**4,700**

(millions of dollars)					As at December 31, 2016
	FCR [1]	Guarantors [2]	Non-Guarantors [3]	Consolidation Adjustments [4]	Total Consolidated
Current assets	$ 355	$ 398	$ 28	$ (607)	$ 174
Non-current assets	8,832	5,699	379	(5,979)	8,931
Current liabilities	841	489	4	(605)	729
Non-current liabilities	4,112	1,821	164	(1,955)	4,142

(1) This column represents FCR and all of its subsidiaries; FCR's subsidiaries are presented under the equity method.

(2) This column represents the aggregate of all Guarantor subsidiaries.

(3) This column represents the aggregate of all Non-Guarantor subsidiaries.

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

(5) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

RELATED PARTY TRANSACTIONS

Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company, and, as of December 31, 2017, beneficially owned 32.6% (December 31, 2016 – 36.4%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit. In the first quarter of 2017, Gazit disposed of 9,000,000 common shares 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.

Joint Ventures

During the three months and year ended December 31, 2017, the Company earned fee income of $0.5 million (December 31, 2016 – $1.3 million) and $2.4 million (December 31, 2016 – $2.9 million), respectively, from its joint ventures. Also during the year ended December 31, 2017, the Company advanced $1.2 million (December 31, 2016 – $nil) to one of its joint ventures.

Subsidiaries of the Company

The audited annual 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.

SUBSEQUENT EVENTS

First Quarter Dividend

The Company announced that it will pay a first quarter dividend of $0.215 per common share on April 18, 2018 to shareholders of record on March 29, 2018.

Redemption of Convertible Debenture

On January 25, 2018, the Company provided a notice of redemption to the holders of the remaining 4.45% Series J convertible debentures that the entire principal amount outstanding plus accrued interest would be redeemed in cash on February 28, 2018.

Disposition Activities

Subsequent to December 31, 2017 the Company entered into a definitive agreement to sell a 50.5% non-managing interest in six properties, or substantially all of its portfolio, in London, Ontario for $66.0 million. In addition, MMUR, in which the Company has a joint venture interest, has entered into a definitive agreement to sell 13 properties for $241.4 million. These transactions are expected to close before the end of the first quarter, subject to standard closing conditions.

QUARTERLY FINANCIAL INFORMATION

	2017				2016			
(share counts in thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property rental revenue	**$ 177,206**	$ 170,670	$ 171,729	$ 174,853	$ 172,731	$ 167,877	$ 167,576	$ 168,100
Net operating income [1]	**$ 111,337**	$ 110,610	$ 108,678	$ 106,884	$ 106,306	$ 107,612	$ 105,083	$ 102,996
Net income attributable to common shareholders	**$ 74,833**	$ 83,046	$ 271,539	$ 203,671	$ 57,739	$ 88,464	$ 169,556	$ 66,957
Net income per share attributable to common shareholders:								
Basic	**$ 0.31**	$ 0.34	$ 1.11	$ 0.83	$ 0.24	$ 0.37	$ 0.73	$ 0.30
Diluted	**$ 0.30**	$ 0.34	$ 1.09	$ 0.82	$ 0.24	$ 0.36	$ 0.71	$ 0.29
Weighted average number of diluted common shares outstanding – IFRS	**248,266**	248,626	250,516	250,232	252,602	250,596	243,235	243,467
Operating FFO [1]	**$ 71,893**	$ 73,298	$ 70,473	$ 68,686	$ 66,239	$ 68,789	$ 64,200	$ 61,504
Operating FFO per diluted share [1]	**$ 0.29**	$ 0.30	$ 0.29	$ 0.28	$ 0.27	$ 0.29	$ 0.28	$ 0.27
FFO [1]	**$ 73,185**	$ 73,720	$ 70,580	$ 66,625	$ 66,824	$ 67,451	$ 66,368	$ 61,902
FFO per diluted share [1]	**$ 0.30**	$ 0.30	$ 0.29	$ 0.27	$ 0.27	$ 0.28	$ 0.29	$ 0.27
Weighted average number of diluted common shares outstanding – FFO	**245,422**	245,137	245,186	244,820	244,554	240,708	233,014	226,692
Cash provided by operating activities	**$ 107,364**	$ 85,956	$ 30,867	$ 45,970	$ 96,950	$ 68,607	$ 42,704	$ 48,339
ACFO [1]	**$ 63,001**	$ 72,221	$ 58,741	$ 49,680	$ 53,470	$ 67,507	$ 63,762	$ 47,246
Dividend per common share	**$ 0.215**	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215
Total assets	**$9,968,552**	$9,861,267	$9,688,357	$9,334,216	$9,104,553	$9,068,841	$8,690,655	$8,387,567
Total mortgages and credit facilities	**$1,641,966**	$1,456,226	$1,609,827	$1,527,179	$1,248,646	$1,277,697	$1,272,977	$1,322,909
Shareholders' equity	**$4,647,071**	$4,618,170	$4,577,648	$4,352,882	$4,195,263	$4,171,426	$3,961,179	$3,666,239
Other								
Number of properties	**161**	159	160	160	160	159	161	160
GLA - at 100% (in thousands)	**25,390**	25,168	25,217	25,215	25,278	25,137	25,238	24,800
GLA - at ownership interest (in thousands)	**23,991**	23,751	23,798	23,791	23,820	23,721	23,911	23,667
Monthly average occupancy %	**95.4%**	95.0%	94.8%	94.6%	94.9%	95.0%	95.0%	94.7%
Total portfolio occupancy %	**96.1%**	95.3%	95.0%	94.5%	94.9%	94.9%	95.1%	95.0%

[1] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

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. Management believes that the policies that are most subject to estimation and Management's judgment are those outlined below.

Judgments

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.

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 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.

Estimates and Assumptions

Valuation of Investment properties

Effective January 1, 2017, the Company's policy in determining the fair value of its investment properties at the end of each reporting period, includes the following approaches:

1. Internal valuations - by certified staff appraisers employed by the Company, in accordance with professional appraisal standards and IFRS. Every investment property has an internal valuation completed at least once a year.

2. Value updates - primarily consisting of management's review of the key assumptions from previous internal valuations and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

External appraisals are obtained periodically by Management. These appraisals are used as data points, together with other market information accumulated by Management, in arriving at its conclusions on key assumptions and values. External appraisals are completed by an independent appraisal firm, in accordance with professional appraisal standards and IFRS.

Shopping centres are appraised primarily based on an income approach that reflects stabilized cash flows or net operating income from existing tenants with the property in its existing state, since purchasers typically focus on expected income. Internal valuations 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 use the direct capitalization method.

Properties undergoing development, redevelopment or expansion are valued either (i) using the stabilized net operating income expected upon completion, with a deduction for costs to complete the project, or (ii) using the discounted cash flow method. Stabilized capitalization rates, discount rates and terminal capitalization rates, as applicable, 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.

Refer to Note 2(f) of the audited consolidated financial statements for the year ended December 31, 2017 for further information on the estimates and assumptions made by Management in connection with the fair values of investment properties.

Valuation of Financial Instruments

The Company is required to determine the fair value of its loans, mortgages and credit facilities, 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 are calculated based on market interest rates plus a 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.

Income 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.

Additional critical accounting estimates and assumptions include those used for determining the 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.

FUTURE ACCOUNTING POLICY CHANGES

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Company and could have an impact on future periods. These changes are described in detail below:

Financial instruments

IFRS 9, “Financial Instruments” (“IFRS 9”), was issued in July 2014, and replaces IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and introduced a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss (“FVTPL”) and to measure equity-based financial assets as either FVTPL or fair value through other comprehensive income (“FVTOCI”). No amounts are reclassified out of other comprehensive income (“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.

The revised hedge accounting model permits additional hedging strategies used for risk management to qualify for hedge accounting.

IFRS 9 is required for annual periods beginning on or after January 1, 2018. The Company has assessed the impact of IFRS 9 to its consolidated financial statements and has concluded that the impact is limited to a change in classification and measurement of some of its loans and mortgages receivable, and available for sale financial assets to fair value through profit and loss, as well as additional disclosures required by IFRS 7, "Financial Instruments - Disclosure" upon initial adoption of IFRS 9. The Company has chosen as its accounting policy to continue to apply the hedge accounting requirements under IAS 39 instead of the requirements under IFRS 9 - Hedge Accounting.

Revenue from contracts with customers

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), was issued in May 2014, and replaces IAS 11, "Construction Contracts", IAS 18, "Revenue Recognition", IFRIC 13, "Customer Loyalty Programmes", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers", and SIC-31, "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 "Leases"; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, "Consolidated Financial Statements", and IFRS 11, "Joint Arrangements". In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the Company expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Company's ordinary activities.

IFRS 15 is required for annual periods beginning on or after January 1, 2018. The Company has assessed the impact of IFRS 15 to its consolidated financial statements and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact will be limited to additional note disclosure on the disaggregation of its revenue streams, specifically its operating cost recoveries.

Leases

IFRS 16, "Leases" ("IFRS 16"), was issued in January 2016, and replaces IAS 17, "Leases" ("IAS 17"). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Certain leases will be exempt from these requirements. The most significant effect expected of the new requirements will be an increase in lease assets and financial liabilities for lessees with material off-balance sheet leases. Lessor accounting requirements under IFRS 16 are carried forward from IAS 17 and accordingly, leases will continue to be classified and accounted for as operating or finance leases by lessors.

IFRS 16 is required for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company is currently assessing the impact of IFRS 16 to its consolidated financial statements. Based on a preliminary assessment of the standard, the Company does not expect this standard to have a significant impact on its consolidated financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being applied. The Company is expected to complete its evaluation by the third quarter of 2018.

Investment property

The amendments to IAS 40, "Investment Property", clarify the accounting guidance and evidence required when an entity transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company has concluded there is no impact to its consolidated financial statements.

Uncertainty over income tax treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact of IFRIC 23 on its consolidated financial statements.

CONTROLS AND PROCEDURES

As at December 31, 2017, 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 the Company'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, the Company used the 2013 framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2017, 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, 2017 that have had, or are reasonably likely to have, a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

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

RISKS AND UNCERTAINTIES

First Capital Realty, as an owner of income-producing properties and development properties, is exposed to numerous business risks in the normal course of its business that can impact both short- and long-term performance. Income-producing and development properties are affected by general economic conditions and local market conditions such as oversupply of similar properties or a reduction in tenant demand. It is the responsibility of Management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk the Company encounters in conducting its business and some of the actions it takes to mitigate these risks are outlined below. The Company's most current Annual Information Form, which provides a detailed description of these and other risks that may affect the Company, can be found on SEDAR at www.sedar.com and on the Company's website at www.fcr.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, fluctuations in interest rates and unemployment levels) 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 Ontario, Alberta, Quebec 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. The Company may also incur significant costs in making improvements or repairs to a property required in order to re-lease vacated premises to a new tenant.

The Company's portfolio has more concentration with certain tenants. In the event that one or more tenants that individually or collectively account for an important amount of the Company's annual minimum rent experience financial difficulty and are unable to pay rent or fulfill their lease commitments, the Company's financial position, results of operation and the value of its properties concerned would be adversely affected.

First Capital Realty's net income could be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of any anchor store or anchor tenant. Anchor tenants generally occupy large amounts of leasable area, 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.

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.

The amount of indebtedness outstanding could require the Company to dedicate a substantial portion of its cash flow from operations to service its debt, thereby reducing funds available for operations, acquisitions, development activities and other business opportunities that may arise. 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 $829.0 million principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between January 1, 2018 and December 31, 2020 at a weighted average coupon interest rate of 5.4%. 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 $8.3 million. In addition, as at December 31, 2017, the Company had $657.6 million principal amount of debt (or 15% of the Company's aggregate debt as of such date) at floating interest rates.

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

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. Refer to "Corporate Structure - Credit Ratings". Any lowering, withdrawal or revision of a credit rating may have an adverse effect on the market price of the senior unsecured debentures and the other securities of the Company, may adversely affect a securityholder's ability to sell its senior unsecured debentures or other securities of the Company and may adversely affect the Company's access to financial markets and its cost of borrowing.

Acquisition, Expansion, Development, Redevelopment and Strategic Dispositions

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; (v) the Company's investigation of a property or building prior to acquisition, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase its acquisition cost; and (vi) representations and warranties obtained from third party vendors may not adequately protect against unknown, unexpected or undisclosed liabilities and any recourse against such vendors may be limited by the financial capacity of such vendors.

Further, the Company's development and redevelopment commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseen 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) an increase in interest rates during the life of the development or redevelopment.

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.

In addition, 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 the markets in which the Company operates, or any increase in supply of available space in such markets (due to new construction, tenant insolvencies or other vacancy) 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 increasingly play a more significant role in consumer preferences and shopping patterns, which presents an evolving competitive risk to the Company that is not easily assessed. 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

The Company 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 homebuyers, 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, the Company 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.

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

The Company has investments in properties with 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, the Company 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. In addition, the Company may be exposed to risks resulting from the actions, omissions or financial situation of a partner, which may result in harm to the Company’s reputation or adversely affect the value of the Company’s investments.

Significant Shareholders

Chaim Katzman, a former director and formerly the Chairman of the Board 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 own approximately 32.6% of the outstanding Common Shares. Gazit-Globe is a public company listed on the Toronto Stock Exchange, the New York Stock Exchange and the Tel-Aviv Stock Exchange. Additional information concerning Gazit-Globe is available in its public disclosure. Dori J. Segal, the Chairman of the Board of the Company, is also a director of Gazit-Globe and its controlling shareholder, Norstar Holdings Inc., a corporation listed on the Tel-Aviv Stock Exchange ("Norstar"). Mr. Katzman as well as Mr. Segal, directly and indirectly, own shares of Norstar and they have entered into a shareholders' agreement under which they have agreed, among other things, to vote for certain nominees to, and to constitute, the board of Norstar in an agreed manner, and to certain participation rights in the event that either Mr. Katzman or Mr. Segal wish to sell any of their shares of Norstar. As of December 31, 2017, Mr. Segal and Mr. Katzman, respectively, own directly 811,800 and 60,000 common shares of Gazit-Globe, representing approximately 0.41% and 0.03%, respectively, of the outstanding common shares of Gazit-Globe.

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 significant interest in the Company, it may be able to exercise significant influence over the outcome of 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. The Gazit Group will also be able to exercise significant 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 occurrence of an event of default thereunder could result in a sale of such pledged Common Shares that could cause the Company's Common Share price to decline materially or may have a material adverse effect on the Company. Many of the occurrences that could result in a default under the Gazit Group credit facilities, including among other things, foreclosure of the pledged Common Shares, are out of the Company's control and are unrelated to its operations.

The foregoing information regarding the Gazit Group 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.

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CONSOLIDATED FINANCIAL STATEMENTS

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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 13, 2018.

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 of 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.

Adam E. Paul
President and Chief Executive Officer

Kay Brekken
Executive Vice President and Chief Financial Officer

Toronto, Ontario
February 13, 2018

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, 2017 and 2016, 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2018

Consolidated Balance Sheets

As at *(thousands of dollars)*	Note	**December 31, 2017**	December 31, 2016
ASSETS			
Non-current Assets			
Real Estate Investments			
Investment properties – shopping centres	4	**$ 9,226,206**	$ 8,370,298
Investment properties – development land	4	**72,041**	67,149
Investment in joint ventures	23	**202,231**	146,422
Loans, mortgages and other real estate assets	5	**133,163**	324,979
Total real estate investments		**9,633,641**	8,908,848
Other non-current assets	7	**32,008**	21,997
Total non-current assets		**9,665,649**	8,930,845
Current Assets			
Cash and cash equivalents	27(d)	**11,507**	12,217
Loans, mortgages and other real estate assets	5	**146,985**	28,316
Residential development inventory		**5,483**	5,010
Amounts receivable	6	**25,437**	21,175
Other assets	7	**15,379**	23,940
		204,791	90,658
Investment properties classified as held for sale	4(d)	**98,112**	83,050
Total current assets		**302,903**	173,708
Total assets		**$ 9,968,552**	$ 9,104,553
LIABILITIES			
Non-current Liabilities			
Mortgages	9	**$ 903,807**	$ 878,008
Credit facilities	9	**558,555**	243,696
Senior unsecured debentures	10	**2,446,291**	2,296,551
Convertible debentures	11	**54,293**	103,765
Other liabilities	12	**16,914**	27,076
Deferred tax liabilities	19	**720,431**	593,293
Total non-current liabilities		**4,700,291**	4,142,389
Current Liabilities			
Bank indebtedness	27(d)	**3,144**	15,914
Mortgages	9	**149,453**	109,167
Credit facilities	9	**23,072**	7,785
Senior unsecured debentures	10	**149,675**	249,891
Convertible debentures	11	**—**	103,868
Accounts payable and other liabilities	12	**240,154**	232,466
		565,498	719,091
Mortgages on investment properties classified as held for sale	4(d), 9	**7,079**	9,990
Total current liabilities		**572,577**	729,081
Total liabilities		**5,272,868**	4,871,470
EQUITY			
Shareholders' equity	13	**4,647,071**	4,195,263
Non-controlling interest	24	**48,613**	37,820
Total equity		**4,695,684**	4,233,083
Total liabilities and equity		**$ 9,968,552**	$ 9,104,553

Refer to accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

Jon Hagan
Director

Adam E. Paul
Director

Consolidated Statements of Income

(thousands of dollars, except per share amounts)	Note	Year ended December 31 2017	2016
Property rental revenue		**$ 694,459**	$ 676,284
Property operating costs		**256,949**	254,287
Net operating income	14	**437,510**	421,997
Other income and expenses			
Interest and other income	15	**28,401**	19,641
Interest expense	16	**(157,411)**	(158,687)
Corporate expenses	17	**(36,442)**	(34,910)
Abandoned transaction costs		**(151)**	(321)
Amortization expense		**(1,963)**	(1,287)
Share of profit from joint ventures	23	**42,860**	12,437
Other gains (losses) and (expenses)	18	**(1,906)**	(586)
Increase (decrease) in value of investment properties, net	4	**458,363**	218,078
		331,751	54,365
Income before income taxes		**769,261**	476,362
Deferred income taxes	19	**125,101**	90,570
Net income		**$ 644,160**	$ 385,792
Net income attributable to:			
Common shareholders		**$ 633,089**	$ 382,714
Non-controlling interest	24	**11,071**	3,078
		$ 644,160	$ 385,792
Net income per share attributable to common shareholders:			
Basic	20	**$ 2.59**	$ 1.62
Diluted	20	**$ 2.55**	$ 1.59

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

		Year ended December 31	
(thousands of dollars)	**Note**	**2017**	2016
Net income		**$ 644,160**	$ 385,792
Other comprehensive income (loss)			
Unrealized gain (loss) on cash flow hedges [1]	26	**14,350**	5,790
Reclassification of net losses on cash flow hedges to net income	26	**1,642**	1,518
		15,992	7,308
Deferred tax expense (recovery)	19	**4,254**	1,944
Other comprehensive income (loss)		**11,738**	5,364
Comprehensive income		**$ 655,898**	$ 391,156
Comprehensive income attributable to:			
Common shareholders		**$ 644,827**	$ 388,078
Non-controlling interest	24	**11,071**	3,078
		$ 655,898	$ 391,156

[1] Items that may subsequently be reclassified to net income.

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of dollars)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
			(Note 13(a))	*(Note 13(b))*			
December 31, 2016	**$ 1,022,863**	**$ (11,698)**	**$ 3,142,399**	**$ 41,699**	**$ 4,195,263**	**$ 37,820**	**$ 4,233,083**
Changes during the period:							
Net income	633,089	—	—	—	633,089	11,071	644,160
Issue costs, net of tax	—	—	(176)	—	(176)	—	(176)
Dividends	(210,433)	—	—	—	(210,433)	—	(210,433)
Interest on convertible debentures paid in common shares	—	—	2,442	—	2,442	—	2,442
Conversion of convertible debentures	—	—	107	(3)	104	—	104
Options, deferred share units, restricted share units, and performance share units, net	—	—	14,770	274	15,044	—	15,044
Other comprehensive gain (loss)	—	11,738	—	—	11,738	—	11,738
Contributions from (distributions to) non-controlling interest, net					—	(278)	(278)
December 31, 2017	**$ 1,445,519**	**$ 40**	**$ 3,159,542**	**$ 41,970**	**$ 4,647,071**	**$ 48,613**	**$ 4,695,684**

(thousands of dollars)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
December 31, 2015	$ 844,382	$ (17,062)	$ 2,768,983	$ 43,649	$ 3,639,952	$ 28,362	$ 3,668,314
Changes during the period:							
Net income	382,714	—	—	—	382,714	3,078	385,792
Issuance of common shares	—	—	287,589	—	287,589	—	287,589
Issue costs, net of tax	—	—	(9,036)	—	(9,036)	—	(9,036)
Dividends	(204,233)	—	—	—	(204,233)	—	(204,233)
Interest on convertible debentures paid in common shares	—	—	13,645	—	13,645	—	13,645
Redemption of convertible debentures	—	—	60,294	(1,187)	59,107	—	59,107
Options, deferred share units, restricted share units, and performance share units, net	—	—	20,924	(763)	20,161	—	20,161
Other comprehensive gain (loss)	—	5,364	—	—	5,364	—	5,364
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	6,380	6,380
December 31, 2016	$ 1,022,863	$ (11,698)	$ 3,142,399	$ 41,699	$ 4,195,263	$ 37,820	$ 4,233,083

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

		Year ended December 31	
(thousands of dollars)	**Note**	**2017**	2016
OPERATING ACTIVITIES			
Net income		**$ 644,160**	$ 385,792
Adjustments for:			
(Increase) decrease in value of investment properties, net	4	**(458,363)**	(218,078)
Interest expense	16	**157,411**	158,687
Amortization expense		**1,963**	1,287
Share of profit of joint ventures	23	**(42,860)**	(12,437)
Distributions from joint ventures		**—**	573
Cash interest paid associated with operating activities	16	**(152,130)**	(141,326)
Items not affecting cash and other items	27(a)	**127,140**	90,806
Net change in non-cash operating items	27(b)	**(7,162)**	(8,706)
Cash provided by operating activities		**270,159**	256,598
FINANCING ACTIVITIES			
Mortgages and credit facilities			
Borrowings, net of financing costs	9	**639,815**	295,017
Principal instalment payments	9	**(28,733)**	(28,685)
Repayments		**(235,110)**	(267,879)
Issuance of senior unsecured debentures, net of issue costs	10	**298,254**	300,922
Repayment of senior unsecured debentures	10	**(250,000)**	—
Settlement of hedges		**1,618**	(5,664)
Repayment of convertible debentures		**(157,325)**	(60,294)
Repurchase of convertible debentures	11(c)	**(112)**	(4,102)
Issuance of common shares, net of issue costs		**9,478**	291,052
Payment of dividends		**(209,620)**	(199,789)
Net contributions from (distributions to) non-controlling interest		**(278)**	6,380
Cash provided by financing activities		**67,987**	326,958
INVESTING ACTIVITIES			
Acquisition of shopping centres	4(c)	**(65,669)**	(286,220)
Acquisition of development land	4(c)	**—**	(34,728)
Net proceeds from property dispositions	4(d)	**88,407**	130,215
Distributions from joint ventures		**5,922**	51,948
Contributions to joint ventures		**(4,870)**	(24,952)
Capital expenditures on investment properties		**(231,905)**	(218,118)
Changes in investing-related prepaid expenses and other liabilities		**(6,184)**	(4,526)
Changes in loans, mortgages and other real estate assets	27(c)	**(111,787)**	(183,836)
Cash used in investing activities		**(326,086)**	(570,217)
Net increase in cash and cash equivalents (bank indebtedness)		**12,060**	13,339
Cash and cash equivalents (bank indebtedness), beginning of year		**(3,697)**	(17,036)
Cash and cash equivalents (bank indebtedness), end of year	27(d)	**$ 8,363**	$ (3,697)

Refer to accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

First Capital Realty Inc. ("First Capital Realty", "FCR", or the "Company") is a corporation existing under the laws of Ontario, Canada, 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 ("IASB").

(b) Basis of presentation

The audited annual 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 as well as for future accounting periods are described in Note 3 – "Adoption of New and Amended IFRS Pronouncements".

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 any changes are 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.

These audited annual consolidated financial statements were approved by the Board of Directors and authorized for issue on February 13, 2018.

(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.

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 its 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 joint ventures 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 the net assets of the joint ventures, less distributions received and less any impairment in the value of individual investments. The Company's income statement reflects its share of the results of operations of the joint ventures after tax, if applicable.

(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 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.

Effective January 1, 2017, the Company's policy in determining the fair value of its investment properties at the end of each reporting period, includes the following approaches:

1. Internal valuations - by certified staff appraisers employed by the Company, in accordance with professional appraisal standards and IFRS. Every investment property has an internal valuation completed at least once a year.
2. Value updates - primarily consisting of management's review of the key assumptions from previous internal valuations and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

External appraisals are obtained periodically by Management. These appraisals are used as data points, together with other market information accumulated by Management, in arriving at its conclusions on key assumptions and values. External appraisals are completed by an independent appraisal firm, in accordance with professional appraisal standards and IFRS.

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 valuations until completion.
- Market risks – specific risks in a region or a trade area may warrant an internal valuation 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.

Valuation Inputs

The Company's investment property is measured using Level 3 inputs (in accordance with IFRS fair value hierarchy), as not all significant inputs are based on observable market data (unobservable inputs). These unobservable inputs reflect the Company's own assumptions of how market participants would price investment property, and are developed based on the best information available, including the Company's own data. These significant unobservable inputs include:

- Stabilized cash flows or net operating income, which is based on the location, type and quality of the properties and supported by the terms of any existing lease, other contracts, or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- Stabilized capitalization rates, discount rates and terminal capitalization rates, which are based on location, size and quality of the properties and taking into account market data at the valuation date. Stabilized capitalization rates are used for the direct capitalization method and discount and terminal capitalization rates are used in the discounted cash flow method described below.
- Costs to complete for properties under development.

(i) Shopping centres

Shopping centres are appraised primarily based on an income approach that reflects stabilized cash flows or net operating income from existing tenants with the property in its existing state, since purchasers typically focus on expected income. Internal valuations 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 use the direct capitalization method.

(ii) Properties under development

Properties undergoing development, redevelopment or expansion are valued either (i) using the stabilized net operating income expected upon completion, with a deduction for costs to complete the project, or (ii) using the discounted cash flow method. Stabilized capitalization rates, discount rates and terminal capitalization rates, as applicable, 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 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.

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.

As required by IFRS in determining investment property fair value, the Company makes no adjustments for portfolio premiums and discounts, nor for any value attributable to the Company's management platform.

(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 development inventory where no development activity is taking place. Residential development inventory is classified as current as the Company intends to sell this asset in its normal operating cycle which is longer than twelve months.

(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 taxable profit will be available against which the deductible temporary differences, unused tax credits and unused 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 are recognized in correlation to the underlying transaction either in OCI or directly in 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, performance 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 in the consolidated statements of income consistent with the vesting features of each grant.

(k) Revenue recognition

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 rents based on tenant sales, and recoveries of operating expenses and property taxes. Percentage 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.

(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, interest rate swaps, and cross currency swaps to hedge its risks associated with movements in interest rates and the movement in the Canadian to US dollar exchange rate. 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).

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

	Classification	Measurement
Financial assets		
Investments designated as AFS	AFS	Fair value
Derivative assets	FVTPL	Fair value
Loans and mortgages receivable	Loans and receivables	Amortized cost
Equity securities designated as FVTPL	FVTPL	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Financial liabilities		
Bank indebtedness	Other liabilities	Amortized cost
Mortgages	Other liabilities	Amortized cost
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 Company 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 Company's own assumptions about the data that market participants would use in pricing the asset or liability, and are developed based on the best information available, including the Company'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, bank indebtedness, and short-term investments with original maturities at the time of acquisition 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.

(ii) 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 reporting periods for which they were designated.

(iii) 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.

(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 22), 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 13).

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

(a) IFRS Amendments

The Company adopted the amended International Financial Reporting Standards pronouncement listed below as of January 1, 2017, in accordance with transitional provisions.

Amendments to IAS 7, "Statement of Cash Flows"

The amendments to IAS 7, "Statement of Cash Flows" are effective for annual periods beginning on or after January 1, 2017. The amendments to IAS 7 require that the following changes in liabilities arising from financing activities are disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The Company has adopted these amendments and has concluded that there is no significant impact to its consolidated financial statements and the relevant disclosure related to the effect of foreign exchange rates on its foreign denominated credit facilities is included in Note 9.

(b) Recent Accounting Pronouncements Not Yet Adopted

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Company and could have an impact on future periods. These changes are described in detail below:

Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued in July 2014, and replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and introduced a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss ("FVTPL") and to measure equity-based financial assets as either FVTPL or 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.

The revised hedge accounting model permits additional hedging strategies used for risk management to qualify for hedge accounting.

IFRS 9 is required for annual periods beginning on or after January 1, 2018. The Company has assessed the impact of IFRS 9 to its consolidated financial statements and has concluded that the impact is limited to a change in classification and measurement of some of its loans and mortgages receivable, and available for sale financial assets to fair value through profit and loss, as well as additional disclosures required by IFRS 7, "Financial Instruments - Disclosure" upon initial adoption of IFRS 9. The Company has chosen as its accounting policy to continue to apply the hedge accounting requirements under IAS 39 instead of the requirements under IFRS 9 - Hedge Accounting.

Revenue from contracts with customers

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), was issued in May 2014, and replaces IAS 11, “Construction Contracts”, IAS 18, “Revenue Recognition”, IFRIC 13, “Customer Loyalty Programmes”, IFRIC 15, “Agreements for the Construction of Real Estate”, IFRIC 18, “Transfers of Assets from Customers”, and SIC-31, “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 “Leases”; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, “Consolidated Financial Statements”, and IFRS 11, “Joint Arrangements”. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the Company expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Company’s ordinary activities.

IFRS 15 is required for annual periods beginning on or after January 1, 2018. The Company has assessed the impact of IFRS 15 to its consolidated financial statements and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact will be limited to additional note disclosure on the disaggregation of its revenue streams, specifically its operating cost recoveries.

Leases

IFRS 16, “Leases” (“IFRS 16”), was issued in January 2016, and replaces IAS 17, “Leases” (“IAS 17”). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Certain leases will be exempt from these requirements. The most significant effect expected of the new requirements will be an increase in lease assets and financial liabilities for lessees with material off-balance sheet leases. Lessor accounting requirements under IFRS 16 are carried forward from IAS 17 and accordingly, leases will continue to be classified and accounted for as operating or finance leases by lessors.

IFRS 16 is required for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company is currently assessing the impact of IFRS 16 to its consolidated financial statements. Based on a preliminary assessment of the standard, the Company does not expect this standard to have a significant impact on its consolidated financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being applied. The Company is expected to complete its evaluation by the third quarter of 2018.

Investment property

The amendments to IAS 40, "Investment Property", clarify the accounting guidance and evidence required when an entity transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company has concluded there is no impact to its consolidated financial statements.

Uncertainty over income tax treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact of IFRIC 23 on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(a) Activity

The following tables summarize the changes in the Company's investment properties for the year ended December 31, 2017 and year ended December 31, 2016:

					Year ended December 31, 2017	
	Central Region	Eastern Region	Western Region	Total	Shopping Centres	Development Land
Balance at beginning of year	$ 3,711,238	$ 1,825,533	$ 2,983,726	$ 8,520,497	$ 8,453,348	$ 67,149
Acquisitions	209,716	71,012	6,478	287,206	287,206	—
Capital expenditures	133,135	30,736	68,034	231,905	226,242	5,663
Increase (decrease) in value of investment properties, net	248,831	67,215	142,316	458,362	452,121	6,241
Straight-line rent and other changes	627	817	1,019	2,463	2,463	—
Dispositions	(25,790)	(15,236)	(49,048)	(90,074)	(90,074)	—
Reclassification to equity accounted joint ventures [(1)]	(14,000)	—	—	(14,000)	(14,000)	—
Balance at end of year	$ 4,263,757	$ 1,980,077	$ 3,152,525	$ 9,396,359	$ 9,317,306	$ 79,053
Investment properties					$ 9,226,206	$ 72,041
Investment properties classified as held for sale					91,100	7,012
Total					$ 9,317,306	$ 79,053

[(1)] The Company sold a 50% interest in its Royal Orchard property and now owns its remaining 50% interest through an equity accounted joint venture.

					Year ended December 31, 2016	
	Central Region	Eastern Region	Western Region	Total	Shopping Centres	Development Land
Balance at beginning of year	$ 3,337,859	$ 1,820,967	$ 2,748,246	$ 7,907,072	$ 7,870,719	$ 36,353
Acquisitions	168,885	63,066	88,997	320,948	286,220	34,728
Capital expenditures	124,233	21,659	72,226	218,118	215,504	2,614
Reclassification to residential development inventory	(5,010)	—	—	(5,010)	(5,010)	—
Increase (decrease) in value of investment properties, net	110,167	21,096	86,815	218,078	217,574	504
Straight-line rent and other changes	2,239	1,148	2,461	5,848	5,848	—
Dispositions	(27,135)	(102,403)	(10,061)	(139,599)	(132,549)	(7,050)
Revaluation of deferred purchase price of shopping centre	—	—	(4,958)	(4,958)	(4,958)	—
Balance at end of year	$ 3,711,238	$ 1,825,533	$ 2,983,726	$ 8,520,497	$ 8,453,348	$ 67,149
Investment properties					$ 8,370,298	$ 67,149
Investment properties classified as held for sale					83,050	—
Total					$ 8,453,348	$ 67,149

Investment properties with a fair value of $2.6 billion (December 31, 2016 – $2.4 billion) are pledged as security for $1.6 billion in mortgages and credit facilities.

(b) Investment property valuation

Stabilized capitalization rates by region for investment properties – shopping centres are set out in the table below:

As at		**December 31, 2017**		December 31, 2016
($ millions)	**Fair Value**	**Weighted Average Capitalization Rate**	Fair Value	Weighted Average Capitalization Rate
Central Region	**$ 4,204**	**5.1%**	$ 3,663	5.3%
Eastern Region	**1,973**	**5.9%**	1,819	6.0%
Western Region	**3,140**	**5.2%**	2,971	5.3%
Total or Weighted Average	**$ 9,317**	**5.3%**	$ 8,453	5.5%

The sensitivity of the fair values of shopping centres to stabilized capitalization rates as at December 31, 2017 is set out in the table below:

As at December 31, 2017	*(millions of dollars)*
(Decrease) Increase in capitalization rate	Resulting increase (decrease) in fair value of shopping centres
(0.75%)	$ 1,406
(0.50%)	$ 891
(0.25%)	$ 426
0.25%	$ (376)
0.50%	$ (725)
0.75%	$ (1,046)

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in an $91 million increase or a $79 million decrease, respectively, in the fair value of shopping centres. SNOI is not a measure defined by IFRS. SNOI reflects 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%. A 1% increase in SNOI coupled with a 0.25% decrease in the stabilized capitalization rate would result in an increase in the fair value of shopping centres of $515 million, and a 1% decrease in SNOI coupled with a 0.25% increase in the stabilized capitalization rate would result in a decrease in the fair value of shopping centres of $457 million.

(c) Investment properties – Acquisitions

During the year ended December 31, 2017 and 2016, the Company acquired shopping centres and development land for rental income and future development and redevelopment opportunities as follows:

Year ended December 31		**2017**		2016
	Shopping Centres	**Development Land**	Shopping Centres	Development Land
Total purchase price, including acquisition costs	**$ 287,206**	**$ —**	$ 286,220	$ 34,728
Debt assumption on acquisition	**(32,337)**	**—**	—	—
Deposit on investment property applied	**(189,200)**	**—**	—	—
Total cash paid	**$ 65,669**	**$ —**	$ 286,220	$ 34,728

(d) Investment properties classified as held for sale

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

As at		**December 31, 2017**		December 31, 2016
Aggregate fair value	**$**	**98,112**	$	83,050
Mortgages secured by investment properties classified as held for sale	**$**	**7,079**	$	9,990
Weighted average effective interest rate of mortgages secured by investment properties classified as held for sale		**6.7%**		4.1%

The increase of $15.1 million in investment properties classified as held for sale from December 31, 2016, primarily arose from new investment properties classified as held for sale, offset by dispositions completed in the year and changes in fair value.

For the year ended December 31, 2017 and 2016, the Company sold shopping centres and development land as follows:

		Year ended December 31		
		2017		2016
Total selling price	**$**	**90,074**	$	139,600
Vendor take-back mortgage on sale		**—**		(6,950)
Property selling costs		**(1,667)**		(2,435)
Total cash proceeds	**$**	**88,407**	$	130,215

(e) Reconciliation of investment properties to total assets

Shopping centres and development land by region and a reconciliation to total assets are set out in the tables below:

As at December 31, 2017	**Central Region**	**Eastern Region**	**Western Region**	**Total**
Total shopping centres and development land [(1)]	**$ 4,263,757**	**$ 1,980,077**	**$ 3,152,525**	**$ 9,396,359**
Cash and cash equivalents				**11,507**
Loans, mortgages and other real estate assets				**280,148**
Other assets				**47,387**
Amounts receivable				**25,437**
Investment in joint ventures				**202,231**
Residential development inventory				**5,483**
Total assets				**$ 9,968,552**

As at December 31, 2016	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development land [(1)]	$ 3,711,238	$ 1,825,533	$ 2,983,726	$ 8,520,497
Cash and cash equivalents				12,217
Loans, mortgages and other real estate assets				353,295
Other assets				45,937
Amounts receivable				21,175
Investment in joint ventures				146,422
Residential development inventory				5,010
Total assets				$ 9,104,553

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

5. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

As at		December 31, 2017		December 31, 2016
Non-current				
Loans and mortgages receivable (a)	**$**	**130,576**	$	131,955
AFS investment in limited partnership		**2,587**		3,824
Deposit on investment property		**—**		189,200
Total non-current	**$**	**133,163**	$	324,979
Current				
Loans and mortgages receivable (a)	**$**	**125,265**	$	15,347
FVTPL investments in securities (b)		**21,720**		12,969
Total current	**$**	**146,985**	$	28,316
Total	**$**	**280,148**	$	353,295

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at December 31, 2017, these receivables bear interest at weighted average effective interest rates of 7.9% (December 31, 2016 – 6.9%) and mature between 2018 and 2023.

(b) The Company has invested in publicly traded real estate and related securities. These securities are recorded at market value. Realized and unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses).

Scheduled principal receipts of loans and mortgages receivable as at December 31, 2017 are as follows:

		Scheduled Receipts	Weighted Average Effective Interest Rate
2018	$	123,082	9.7%
2019		76,125	6.8%
2020		75	0.0%
2021		4,650	4.8%
2022		—	N/A
2023 to 2024		47,255	5.5%
	$	251,187	7.9%
Unamortized deferred financing fees and accrued interest		4,654	
	$	255,841	
Current	$	125,265	9.7%
Non-current		130,576	6.2%
Total	$	255,841	7.9%

6. AMOUNTS RECEIVABLE

As at		December 31, 2017		December 31, 2016
Trade receivables (net of allowances for doubtful accounts of $2.6 million; December 31, 2016 – $3.6 million)	**$**	**23,698**	$	19,291
Corporate and other amounts receivable		**1,739**		1,884
Total	**$**	**25,437**	$	21,175

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.

7. OTHER ASSETS

As at	Note	December 31, 2017	December 31, 2016
Non-current			
Fixtures, equipment and computer hardware and software (net of accumulated amortization of $7.2 million; December 31, 2016 - $5.1 million)		**$ 12,686**	$ 9,986
Deferred financing costs on credit facilities (net of accumulated amortization of $3.9 million; December 31, 2016 - $3.5 million)		**2,379**	2,453
Environmental indemnity and insurance proceeds receivable	12(a)	**6,247**	6,875
Derivatives at fair value	22	**10,696**	2,683
Total non-current		**$ 32,008**	$ 21,997
Current			
Deposits and costs on investment properties under option		**$ 1,587**	$ 2,668
Prepaid expenses		**7,654**	6,719
Other deposits		**349**	1,074
Restricted cash		**50**	3,724
Derivatives at fair value	22	**5,739**	9,755
Total current		**$ 15,379**	$ 23,940
Total		**$ 47,387**	$ 45,937

8. 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 to shareholders over the long term. The Company's capital structure currently includes common shares, senior unsecured debentures, mortgages, convertible debentures, credit facilities and bank indebtedness, 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.

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

As at	December 31, 2017	December 31, 2016
Liabilities (principal amounts outstanding)		
Bank indebtedness	**$ 3,144**	$ 15,914
Mortgages	**1,060,342**	995,925
Credit facilities	**581,627**	251,481
Mortgages under equity accounted joint ventures (at the Company's interest)	**41,987**	46,741
Credit facilities under equity accounted joint venture (at the Company's interest)	**102,748**	80,131
Senior unsecured debentures	**2,600,000**	2,550,000
Convertible debentures	**55,093**	212,635
Equity Capitalization		
Common shares (based on closing per share price of $20.72; December 31, 2016 – $20.67)	**5,064,612**	5,033,286
Total capital employed	**$ 9,509,553**	$ 9,186,113

The Company is subject to financial covenants in agreements governing its senior unsecured debentures and its credit facilities. In accordance with the terms of the Company's credit agreements, all ratios are calculated with joint ventures proportionately consolidated. As at December 31, 2017, the Company remains in compliance with all of its applicable financial covenants.

The following table summarizes a number of the Company's key ratios:

As at	Measure/ Covenant	**December 31, 2017**	December 31, 2016
Net debt to total assets		**43.4%**	42.6%
Unencumbered aggregate assets to unsecured debt, using 10 quarter average capitalization rate [1]	≥1.3	**2.1**	2.0
Shareholders' equity, using four quarter average (billions) [1]	>$1.6B	**$ 4.5**	$ 4.0
Secured indebtedness to total assets [1]	<35%	**12.7%**	12.7%
For the rolling four quarters ended			
Interest coverage (Adjusted EBITDA to interest expense) [1]	>1.65	**2.5**	2.5
Fixed charge coverage (Adjusted EBITDA to debt service) [1]	>1.50	**2.1**	2.2

[1] Calculations required under the Company's credit facility agreements or indentures governing the senior unsecured debentures.

The above ratios include measures not specifically defined in IFRS. Certain calculations are required pursuant to debt covenants and are meaningful measures for this reason. 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 for the net debt to total assets ratio, as the Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares;
- Net debt is calculated as Debt, as defined above, reduced by cash balances at the end of the period;
- Secured indebtedness includes mortgages and any draws under the secured facilities that are collateralized against investment property.
- Adjusted EBITDA, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the fair value of investment properties, other gains (losses) and (expenses) and other non-cash or non-recurring items. The Company also adjusts for incremental leasing costs, which is a recognized adjustment to Funds from Operations, in accordance with the recommendations of the Real Property Association of Canada.
- Fixed charges include regular principal and interest payments and capitalized interest in the calculation of interest expense and do 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. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt, which consists of the bank indebtedness, unsecured credit facilities, senior unsecured debentures and convertible debentures.

9. MORTGAGES AND CREDIT FACILITIES

As at	**December 31, 2017**	December 31, 2016
Fixed rate mortgages	**$ 1,060,339**	$ 997,165
Unsecured facilities	**485,727**	183,451
Secured facilities	**95,900**	68,030
Mortgages and credit facilities	**$ 1,641,966**	$ 1,248,646
Current	**$ 172,525**	$ 116,952
Mortgages on investment properties classified as held for sale	**7,079**	9,990
Non-current	**1,462,362**	1,121,704
Total	**$ 1,641,966**	$ 1,248,646

Mortgages and secured facilities are secured by the Company's investment properties. As at December 31, 2017, approximately $2.6 billion (December 31, 2016 – $2.4 billion) of investment properties out of $9.4 billion (December 31, 2016 – $8.5 billion) (Note 4(a)) had been pledged as security under the mortgages and the secured facilities.

As at December 31, 2017, mortgages bear coupon interest at a weighted average coupon rate of 4.3% (December 31, 2016 – 4.5%) and mature in the years ranging from 2018 to 2028. The weighted average effective interest rate on all mortgages as at December 31, 2017 is 4.3% (December 31, 2016 – 4.4%).

Principal repayments of mortgages outstanding as at December 31, 2017 are as follows:

	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2018	$ 27,117	$ 124,412	$ 151,529	5.5%
2019	24,619	106,714	131,333	6.5%
2020	22,425	67,893	90,318	4.4%
2021	20,634	73,397	94,031	4.8%
2022	15,711	147,954	163,665	3.9%
2023 to 2028	46,488	382,978	429,466	3.5%
	$ 156,994	$ 903,348	$ 1,060,342	4.3%
Unamortized deferred financing costs and premiums, net			(3)	
Total			$ 1,060,339	

The Company has the ability under its unsecured credit facilities to draw funds based on Canadian bank prime rates and Canadian bankers' acceptances ("BA rates") for Canadian dollar-denominated borrowings, and LIBOR rates or U.S. prime rates for U.S. dollar-denominated borrowings. As of December 31, 2017, the Company had drawn US$387.2 million, as well as CAD$3.1 million in bank indebtedness on its unsecured credit facilities. Concurrently with the U.S. dollar draws, the Company entered into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

During the second quarter, the Company extended the maturity of its $800 million unsecured facility to June 30, 2022 on substantially the same terms.

In the fourth quarter, the Company also extended the maturity of its $115 million secured facility to February 13, 2019 on substantially the same terms.

The Company's credit facilities as at December 31, 2017 are summarized in the table below:

As at December 31, 2017	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Unsecured Operating Facilities						
Revolving facility maturing 2022 [1]	$ 800,000	$ (338,715)	$ (22,494)	$ 438,791	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	June 30, 2022
Non-revolving facility maturing 2020 [2]	150,000	(147,012)	(13,932)	—	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	October 31, 2020
Secured Construction Facilities						
Maturing 2019	115,000	(60,953)	(1,475)	52,572	BA + 1.125% or Prime + 0.125%	February 13, 2019
Maturing 2018	15,907	(15,572)	—	335	BA + 1.125% or Prime + 0.125%	March 31, 2018
Secured Facilities						
Maturing 2019	11,875	(11,875)	—	—	BA + 1.125% or Prime + 0.125%	September 27, 2019
Maturing 2018	7,500	(7,500)	—	—	BA + 1.125% or Prime + 0.125%	September 6, 2018
Total	$ 1,100,282	$ (581,627)	$ (37,901)	$ 491,698		

[1] The Company had drawn in U.S. dollars the equivalent of CAD$346.1 million which was revalued at CAD$338.7 million as at December 31, 2017.

[2] The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$147.0 million as at December 31, 2017.

10. SENIOR UNSECURED DEBENTURES

As at				**December 31, 2017**		December 31, 2016
		Interest Rate				
Series	Maturity Date	Coupon	Effective	**Principal Outstanding**	**Liability**	Liability
H	January 31, 2017	5.85%	5.99%	$ —	$ —	$ 124,985
I	November 30, 2017	5.70%	5.79%	—	—	124,906
J	August 30, 2018	5.25%	5.66%	**50,000**	**49,868**	49,761
K	November 30, 2018	4.95%	5.17%	**100,000**	**99,807**	99,602
L	July 30, 2019	5.48%	5.61%	**150,000**	**149,712**	149,542
M	April 30, 2020	5.60%	5.60%	**175,000**	**174,991**	174,988
N	March 1, 2021	4.50%	4.63%	**175,000**	**174,361**	174,177
O	January 31, 2022	4.43%	4.59%	**200,000**	**198,824**	198,567
P	December 5, 2022	3.95%	4.18%	**250,000**	**247,512**	247,066
Q	October 30, 2023	3.90%	3.97%	**300,000**	**298,951**	298,794
R	August 30, 2024	4.79%	4.72%	**300,000**	**301,172**	301,323
S	July 31, 2025	4.32%	4.24%	**300,000**	**301,587**	301,768
T	May 6, 2026	3.60%	3.56%	**300,000**	**300,865**	300,963
U	July 12, 2027	3.75%	3.82%	**$ 300,000**	**298,316**	—
Weighted Average or Total		4.36%	4.42%	**$ 2,600,000**	**$ 2,595,966**	$ 2,546,442
Current				**150,000**	**149,675**	249,891
Non-current				**2,450,000**	**2,446,291**	2,296,551
Total				**$ 2,600,000**	**$ 2,595,966**	$ 2,546,442

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

On July 10, 2017, the Company completed the issuance of $300 million principal amount of Series U senior unsecured debentures due July 12, 2027. These debentures bear interest at a coupon rate of 3.753% per annum, payable semi-annually commencing January 12, 2018.

11. CONVERTIBLE DEBENTURES

As at				**December 31, 2017**			December 31, 2016		
		Interest Rate							
Series	Maturity Date	Coupon	Effective	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
E	January 31, 2019	5.40%	6.90%	—	—	—	54,666	53,095	2,084
F	January 31, 2019	5.25%	6.07%	—	—	—	51,584	50,773	351
I	July 31, 2019	4.75%	6.19%	—	—	—	51,210	49,822	1,403
J	February 28, 2020	4.45%	5.34%	**55,093**	**54,293**	**386**	55,175	53,943	386
	Weighted Average or Total	4.45%	5.34%	**$ 55,093**	**$ 54,293**	**$ 386**	$ 212,635	$ 207,633	$ 4,224
	Current			—	—		106,250	103,868	
	Non-current			**55,093**	**54,293**		106,385	103,765	
	Total			**$ 55,093**	**$ 54,293**	**$ 386**	$ 212,635	$ 207,633	$ 4,224

(a) Principal and interest

The Company has the option of repaying the convertible debentures on maturity in cash or through the issuance of common shares at 97% of the 20-day volume weighted average trading price of the Company's common shares ending five days prior to maturity date. The Company also has the option of paying the semi-annual interest in cash or through the issuance of common shares. 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.

During the year ended December 31, 2017, 0.1 million common shares (year ended December 31, 2016 – 0.7 million common shares) were issued for $2.4 million (year ended December 31, 2016 – $13.6 million) to pay accrued interest to holders of the convertible debentures.

During the year ended December 31, 2017, the Company also paid $3.9 million (year ended December 31, 2016 – $0.1 million) in cash to pay accrued interest to holders of convertible debentures.

Each series of the Company's convertible debentures pays interest 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
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 [3]

[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 February 28, 2018 and $27.75 per common share thereafter.

(b) Principal redemption

On January 31, 2017, the Company redeemed its remaining 5.40% Series E and 5.25% Series F convertible debentures at par. The full redemption price and any accrued interest owing on each series of convertible debentures was satisfied in cash.

On August 1, 2017, the Company redeemed its remaining 4.75% Series I convertible debentures at par. The full redemption price and any accrued interest owing on the convertible debentures was satisfied in cash.

(c) Normal course issuer bid

Effective August 29, 2016, the Company renewed its normal course issuer bid ("NCIB") for all of its then outstanding series of convertible debentures. The NCIB expired on August 28, 2017 and was not renewed by the Company. All purchases made under the NCIB were at market prices prevailing at the time of purchase determined by or on behalf of the Company.

For the year ended December 31, 2017 and 2016, principal amounts of convertible debentures purchased and amounts paid for the purchases are represented in the table below:

Year ended December 31	**2017**		2016	
	Principal Amount Purchased	**Amount Paid**	Principal Amount Purchased	Amount Paid
Total	**$ 110**	**$ 112**	$ 4,048	$ 4,102

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at	Note	December 31, 2017	December 31, 2016
Non-current			
Asset retirement obligations (a)		**$ 5,179**	$ 7,815
Ground leases payable		**9,010**	9,423
Derivatives at fair value	22	**844**	6,469
Deferred purchase price of investment property – shopping centre		**1,783**	1,763
Deferred income		**98**	1,606
Total non-current		**$ 16,914**	$ 27,076
Current			
Trade payables and accruals		**$ 61,538**	$ 66,343
Construction and development payables		**47,603**	49,204
Dividends payable		**52,553**	52,330
Interest payable		**37,145**	38,016
Tenant deposits		**30,816**	26,573
Derivatives at fair value	22	**10,499**	—
Total current		**$ 240,154**	$ 232,466
Total		**$ 257,068**	$ 259,542

(a) The Company has obligations for environmental remediation at certain sites within its property portfolio. The Company has also recognized a related environmental indemnity and insurance proceeds receivable totaling $6.2 million in other assets (Note 7).

13. SHAREHOLDERS' EQUITY

(a) Share capital

The authorized share capital of the Company consists of an unlimited number of authorized common shares and preference shares. The common shares carry one vote each and participate equally in the income 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 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 following table sets forth the particulars of the issued and outstanding common shares of the Company:

Year ended December 31		**2017**		2016	
	Note	**Number of Common Shares**	**Stated Capital**	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of year		**243,507**	**$ 3,142,399**	225,538	$ 2,768,983
Payment of interest on convertible debentures	11	**124**	**2,442**	673	13,645
Conversion of convertible debentures	11	**4**	**107**	3,080	60,294
Exercise of options, and settlement of any restricted, performance and deferred share units		**796**	**14,770**	1,129	20,924
Issuance of common shares		**—**	**—**	13,087	287,589
Share issue costs and other, net of tax effect		**—**	**(176)**	—	(9,036)
Issued and outstanding at end of year		**244,431**	**$ 3,159,542**	243,507	$ 3,142,399

Quarterly dividends declared per common share were $0.86 for the year ended December 31, 2017 (year ended December 31, 2016 – $0.86).

(b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

Year ended December 31			**2017**					2016
	Contributed Surplus	**Convertible Debentures Equity Component**	**Stock-based Compensation Plan Awards**	**Total**	Contributed Surplus	Convertible Debentures Equity Component	Stock-based Compensation Plan Awards	Total
Balance at beginning of year	**$ 20,954**	**$ 4,224**	**$ 16,521**	**$ 41,699**	$ 19,532	$ 6,833	$ 17,284	$ 43,649
Redemption of convertible debentures	**3,834**	**(3,837)**	**—**	**(3)**	1,386	(2,561)	—	(1,175)
Repurchase of convertible debentures	**1**	**(1)**	**—**	**—**	36	(48)	—	(12)
Options vested	**—**	**—**	**896**	**896**	—	—	833	833
Exercise of options	**(272)**	**—**	**(1,235)**	**(1,507)**	—	—	(1,540)	(1,540)
Deferred share units	**—**	**—**	**749**	**749**	—	—	820	820
Restricted share units	**—**	**—**	**2,234**	**2,234**	—	—	2,102	2,102
Performance share units	**—**	**—**	**1,447**	**1,447**	—	—	547	547
Settlement of any restricted, performance and deferred share units	**—**	**—**	**(3,545)**	**(3,545)**	—	—	(3,525)	(3,525)
Balance at end of year	**$ 24,517**	**$ 386**	**$ 17,067**	**$ 41,970**	$ 20,954	$ 4,224	$ 16,521	$ 41,699

(c) Stock options

As of December 31, 2017, the Company is authorized to grant up to 19.7 million (December 31, 2016 – 15.2 million) common share options to the employees, officers and directors of the Company. As of December 31, 2017, 5.5 million (December 31, 2016 – 1.7 million) common share options are available to be granted to the employees, officers and directors of the Company. In addition, as at December 31, 2017, 4.1 million common share options were outstanding. 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, 2017 have exercise prices ranging from $9.81 – $20.24 (December 31, 2016 – $9.81 – $20.24).

As at			**December 31, 2017**					December 31, 2016		
	Outstanding Options			**Vested Options**		Outstanding Options			Vested Options	
Exercise Price Range ($)	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	**Weighted Average Remaining Life (years)**	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share
9.81 – 18.15	**933**	**$ 16.49**	**3.6**	**833**	**$ 16.33**	1,601	$ 16.53	3.4	1,335	$ 16.28
18.16 – 18.99	**1,171**	**$ 18.60**	**6.0**	**688**	**$ 18.67**	1,336	$ 18.62	6.7	531	$ 18.71
19.00 – 20.02	**1,015**	**$ 19.63**	**7.9**	**242**	**$ 19.62**	1,124	$ 19.64	8.6	95	$ 19.64
20.03 – 20.24	**1,014**	**$ 20.09**	**9.1**	**29**	**$ 20.24**	145	$ 20.24	9.3	—	$ —
9.81 – 20.24	**4,133**	**$ 18.74**	**6.7**	**1,792**	**$ 17.74**	4,206	$ 18.15	6.0	1,961	$ 17.10

During the year ended December 31, 2017, $0.8 million (year ended December 31, 2016 – $0.7 million) was recorded as an expense related to stock options.

Year ended December 31	**2017**		**2017**	2016		2016
	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	**4,206**	**$**	**18.15**	4,199	$	17.56
Granted (a)	**869**		**20.07**	1,000		19.69
Exercised (b)	**(827)**		**17.12**	(931)		17.13
Forfeited	**(114)**		**18.91**	(60)		18.98
Expired	**(1)**		**17.67**	(2)		15.47
Outstanding at end of year	**4,133**	**$**	**18.74**	4,206	$	18.15

(a) The fair value associated with the options issued was calculated using the Black-Scholes model for option valuation based on the assumptions in the following table and is recognized as compensation expense over the vesting period.

Year ended December 31	**2017**	2016
Share options granted (thousands)	**869**	1,000
Term to expiry	**10 years**	10 years
Exercise price	**$20.07**	$19.69
Weighted average volatility rate	**15.0%**	15.0%
Weighted average expected option life	**6 years**	6 years
Weighted average dividend yield	**4.26%**	4.35%
Weighted average risk free interest rate	**1.31%**	0.78%
Fair value (thousands)	**$1,125**	$1,082

(b) The weighted average market share price at which options were exercised for the year ended December 31, 2017 was $20.42 (year ended December 31, 2016 – $21.14).

(d) Share unit plans

The Company’s share unit plans include a Directors' Deferred Share Unit ("DSU") Plan and a Restricted Share Unit ("RSU") Plan that provides for the issuance of Restricted Share Units and Performance Share Units ("PSU"). Under the DSU and RSU 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 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 RSU, on December 15 of the third calendar year following the year of grant for RSUs granted prior to June 1, 2015, and, for all subsequent RSUs granted, on the third anniversary of the grant date. Under the PSU plan, a participant is entitled to receive 0.5 – 1.5 common shares per PSU granted, or equivalent cash value at the Company's option, on the third anniversary of the grant date. Holders of units granted under each plan receive dividends in the form of additional units when the Company declares dividends on its common shares.

Year ended December 31	**2017**	**2017**	2016	2016
(in thousands)	**DSUs**	**RSUs / PSUs**	DSUs	RSUs / PSUs
Outstanding at beginning of year	**275**	**471**	349	374
Granted (a) (b)	**28**	**191**	24	171
Dividends declared	**12**	**28**	14	16
Exercised	**(14)**	**(182)**	(112)	(90)
Forfeited	**—**	**(20)**	—	—
Outstanding at end of year	**301**	**488**	275	471
Expense recorded for the year	**$502**	**$3,339**	$530	$2,335

(a) The fair value of the DSUs granted during the year ended December 31, 2017 was $0.5 million (year ended December 31, 2016 – $0.5 million), measured based on the Company's prevailing share price on the date of grant. The fair value of the RSUs granted during the year ended December 31, 2017 was $1.6 million (year ended December 31, 2016 – $1.3 million), measured based on the Company's share price on the date of grant.

(b) The fair value of the PSUs granted during the year ended December 31, 2017 was $2.2 million (year ended December 31, 2016 – $2.2 million). The fair value is calculated using the Monte-Carlo simulation model based on the assumptions below as well as a market adjustment factor based on the total shareholder return of the Company's common shares relative to the S&P/TSX Capped REIT Index.

Year ended December 31	**2017**	2016
PSUs granted (thousands)	**112**	106
Term to expiry	**3 years**	3 years
Weighted average volatility rate	**14.3%**	13.4%
Weighted average correlation	**40.4%**	41.9%
Weighted average total shareholder return	**0.5%**	8.8%
Weighted average risk free interest rate	**0.95%**	0.55%
Fair value (thousands)	**$2,238**	$2,197

The fair value of awards granted under the above plans is recognized as compensation expense over the respective vesting periods.

14. NET OPERATING INCOME

Net operating income is presented by segment as follows:

Year ended December 31, 2017	**Central Region**	**Eastern Region**	**Western Region**	**Subtotal**	**Other [1]**	**Total**
Property rental revenue	**$ 288,416**	**$ 180,856**	**$ 227,966**	**$ 697,238**	**$ (2,779)**	**$ 694,459**
Property operating costs	**108,493**	**78,048**	**75,910**	**262,451**	**(5,502)**	**256,949**
Net operating income	**$ 179,923**	**$ 102,808**	**$ 152,056**	**$ 434,787**	**$ 2,723**	**$ 437,510**

Year ended December 31, 2016	Central Region	Eastern Region	Western Region	Subtotal	Other [1]	Total
Property rental revenue	$ 280,569	$ 177,304	$ 221,480	$ 679,353	$ (3,069)	$ 676,284
Property operating costs	108,496	76,982	73,010	258,488	(4,201)	254,287
Net operating income	$ 172,073	$ 100,322	$ 148,470	$ 420,865	$ 1,132	$ 421,997

[1] Other items principally consist of intercompany eliminations.

For the year ended December 31, 2017, property operating costs include $20.2 million (year ended December 31, 2016 – $21.6 million) related to employee compensation.

15. INTEREST AND OTHER INCOME

		Year ended December 31	
	Note	**2017**	2016
Interest, dividend and distribution income from marketable securities	5	**$ 936**	$ 1,129
Interest income from loans, deposit and mortgages receivable	5	**19,070**	11,759
Fees and other income		**8,395**	6,753
Total		**$ 28,401**	$ 19,641

16. INTEREST EXPENSE

		Year ended December 31	
	Note	**2017**	2016
Mortgages	9	**$ 47,244**	$ 47,724
Credit facilities	9	**10,890**	6,641
Senior unsecured debentures	10	**115,798**	112,023
Convertible debentures	11	**5,150**	14,603
Total interest expense		**179,082**	180,991
Interest capitalized to investment properties under development		**(21,671)**	(22,304)
Interest expense		**$ 157,411**	$ 158,687
Convertible debenture interest paid in common shares	11	**(2,442)**	(13,645)
Change in accrued interest		**870**	521
Effective interest rate less than (in excess of) coupon interest rate on senior unsecured and convertible debentures		**911**	(76)
Coupon interest rate in excess of effective interest rate on assumed mortgages		**1,332**	2,232
Amortization of deferred financing costs		**(5,952)**	(6,393)
Cash interest paid associated with operating activities		**$ 152,130**	$ 141,326

17. CORPORATE EXPENSES

	Year ended December 31	
	2017	2016
Salaries, wages and benefits	**$ 27,756**	$ 26,485
Non-cash compensation	**4,258**	3,469
Other corporate costs	**11,630**	11,393
Total corporate expenses	**43,644**	41,347
Amounts capitalized to investment properties under development	**(7,202)**	(6,437)
Corporate expenses	**$ 36,442**	$ 34,910

18. OTHER GAINS (LOSSES) AND (EXPENSES)

	Year ended December 31	
	2017	2016
Realized gain (loss) on sale of marketable securities	**$ (1,165)**	$ 79
Unrealized gain (loss) on marketable securities	**3,313**	1,071
Net gain (loss) on prepayments of debt	**(3,032)**	(1,119)
Proceeds from Target	**474**	3,813
Investment properties selling costs	**(1,667)**	(2,435)
Restructuring costs	**—**	(1,988)
Other	**171**	(7)
Total	**$ (1,906)**	$ (586)

During the year, the Company recognized a $3.0 million net loss on prepayment of debt primarily due to non-cash losses on early redemptions of the Series E, F, and I convertible debentures, as well as $2.1 million net gains on marketable securities.

19. INCOME TAXES

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

	December 31, 2016	Net income	Recognized in OCI	Equity and other	**December 31, 2017**
Deferred taxes related to non-capital losses	$ (30,249)	$ 1,493	$ 431	$ (1,058)	**$ (29,383)**
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	623,542	123,608	3,823	(1,159)	**749,814**
Net deferred taxes	$ 593,293	$ 125,101	$ 4,254	$ (2,217)	**$ 720,431**

As at December 31, 2017, the Company had approximately $111.3 million of non-capital losses which expire between 2026 and 2037.

	December 31, 2015	Net income	Recognized in OCI	Equity and other	December 31, 2016
Deferred taxes related to non-capital losses	$ (37,994)	$ 10,922	$ (1,506)	$ (1,671)	$ (30,249)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	542,695	79,648	3,450	(2,251)	623,542
Net deferred taxes	$ 504,701	$ 90,570	$ 1,944	$ (3,922)	$ 593,293

As at December 31, 2016, the Company had approximately $114.9 million of non-capital losses which expire between 2027 and 2035.

The following reconciles the Company's expected tax expense computed at the statutory tax rate to its actual tax expense for the year ended December 31, 2017 and 2016:

	Year ended December 31	
	2017	2016
Income tax expense at the Canadian federal and provincial income tax rate of 26.6%	**$ 204,623**	$ 126,712
Increase (decrease) in income taxes due to:		
Non-taxable portion of capital gains and other	**(76,413)**	(38,883)
Impact of change in statutory income tax rate	**1,792**	(1,207)
Non-controlling interests in income of flow-through entity	**(2,945)**	—
Other	**(1,956)**	3,948
Deferred income taxes	**$ 125,101**	$ 90,570

During the fourth quarter of 2017, the Province of British Columbia increased its general corporate income tax rate while the Province of Quebec reduced its general corporate income tax rate, both of which impacted the measurement of the Company's deferred taxes.

20. PER SHARE CALCULATIONS

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

	Year ended December 31	
	2017	2016
Net income attributable to common shareholders	**$ 633,089**	$ 382,714
Adjustment for dilutive effect of convertible debentures, net of tax	**3,427**	9,276
Income for diluted per share amounts	**$ 636,516**	$ 391,990
(in thousands)		
Weighted average number of shares outstanding for basic per share amounts	**244,754**	235,671
Options	**399**	572
Convertible debentures	**4,260**	10,185
Weighted average diluted share amounts	**249,413**	246,428

There were no options or convertible debentures that were determined to be anti-dilutive.

21. 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 structures 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, bond forwards 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.

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, 2018 and December 31, 2020 at a weighted average coupon interest rate of 5.4%. 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 increase or decrease, respectively, by $8.3 million.

The Company's loans and mortgages receivable 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 would increase or decrease by approximately $2.5 million.

(b) Credit risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable or unwilling to fulfill their lease commitments or loan obligations. The Company mitigates the risk of credit loss from tenants by investing in well-located properties in urban markets that attract high quality tenants, ensuring that its tenant mix is diversified, and by limiting its exposure to any one tenant. As at December 31, 2017, Loblaw Companies Limited ("Loblaw") accounts for 10.4% of the Company's annualized minimum rent and has an investment grade credit rating. Other than Loblaw, no other tenant accounts for more than 10% of the 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 typically mitigates the risk of credit loss from debtors by obtaining registered mortgage charges on real estate properties.

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:

(thousands of Canadian dollars)	**2017**
Within 1 year	**$ 423,989**
After 1 year, but not more than 5 years	**1,146,350**
More than 5 years	**767,724**
	$ 2,338,063

(c) Liquidity risk

Real estate investments are relatively illiquid. This tends 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 as at December 31, 2017 is set out below:

As at December 31, 2017	Payments Due by Period				
	2018	2019 to 2020	2021 to 2022	Thereafter	Total
Scheduled mortgage principal amortization	$ 27,117	$ 47,044	$ 36,345	$ 46,488	$ 156,994
Mortgage principal repayments on maturity	124,412	174,607	221,351	382,978	903,348
Credit facilities and bank indebtedness	23,072	219,840	341,859	—	584,771
Senior unsecured debentures	150,000	325,000	625,000	1,500,000	2,600,000
Convertible debentures	55,093	—	—	—	55,093
Interest obligations [1]	167,553	281,336	205,049	200,174	854,112
Land leases (expiring between 2023 and 2061)	1,188	2,290	2,208	18,413	24,099
Contractual committed costs to complete current development projects	73,654	4,398	—	—	78,052
Other committed costs	6,291	15,714	—	—	22,005
Total contractual obligations	$ 628,380	$ 1,070,229	$ 1,431,812	$ 2,148,053	$ 5,278,474

[1] Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2017 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using unsecured credit facilities; and issuing equity when considered appropriate. As at December 31, 2017, there was $485.7 million (December 31, 2016 – $183.5 million) of cash advances drawn against the Company's unsecured credit facilities.

In addition, as at December 31, 2017, the Company has $38.0 million (December 31, 2016 – $48.2 million) of bank overdrafts and outstanding letters of credit issued by financial institutions primarily to support certain of the Company's contractual obligations.

22. FAIR VALUE MEASUREMENT

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:

		Carrying Amount		Fair Value	
	Notes	**2017**	2016	**2017**	2016
Financial assets					
FVTPL investments in equity securities	6	**$ 21,720**	$ 12,969	**$ 21,720**	$ 12,969
AFS investments in equity securities	6	**2,587**	3,824	**2,587**	3,824
Loans and mortgages receivable	6	**255,841**	147,302	**255,447**	144,379
Derivatives at fair value	8	**16,435**	12,438	**16,435**	12,438
Financial liabilities					
Mortgages	10	**$ 1,060,339**	$ 997,165	**$ 1,072,212**	$ 996,835
Credit facilities	10	**581,627**	251,481	**581,627**	251,481
Senior unsecured debentures	11	**2,595,966**	2,546,442	**2,696,511**	2,691,059
Convertible debentures	12	**54,293**	207,633	**55,644**	214,423
Derivatives at fair value	13	**11,343**	6,469	**11,343**	6,469

The fair values of the Company's cash and cash equivalents, amounts receivable, restricted cash and accounts payable and other liabilities approximate their carrying values as at December 31, 2017 and 2016 due to their short term nature.

The fair values of the Company's investments in FVTPL are based on quoted market prices. The Company has an investment in a fund classified as Level 3 AFS equity securities, 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. As at December 31, 2017, the risk-adjusted interest rates ranged from 3.9% to 15.0% (December 31, 2016 – 4.0% to 15.0%).

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, 2017, these rates ranged from 2.4% to 3.6% (December 31, 2016 – 2.3% to 3.6%).

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, 2017, these rates ranged from 1.8% to 3.8% (December 31, 2016 – 1.1% to 3.7%).

The fair values of the convertible debentures are based on the TSX closing bid prices.

The fair value hierarchy of financial instruments on the audited annual consolidated balance sheets is as follows:

As at	**December 31, 2017**			December 31, 2016		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Measured at fair value						
Financial Assets						
FVTPL investments in securities	**$ 21,720**	**$ —**	**$ —**	$ 12,969	$ —	$ —
AFS investments in limited partnership	**—**	**—**	**2,587**	—	—	3,824
Derivatives at fair value – assets	**—**	**16,435**	**—**	—	12,438	—
Financial Liabilities						
Derivatives at fair value – liabilities	**—**	**11,343**	**—**	—	6,469	—
Measured at amortized cost						
Financial Assets						
Loans and mortgages receivable	**$ —**	**$ —**	**$ 255,447**	$ —	$ —	$ 144,379
Financial Liabilities						
Mortgages	**—**	**1,072,212**	**—**	—	996,835	—
Credit facilities	**—**	**581,627**	**—**	—	251,481	—
Senior unsecured debentures	**—**	**2,696,511**	**—**	—	2,691,059	—
Convertible debentures	**55,644**	**—**	**—**	214,423	—	—

The Company enters into derivative instruments including bond forward contracts, interest rate swaps and cross currency swaps as part of its strategy for managing certain interest rate risks as well as currency risk in relation to movements in the Canadian to U.S. exchange rate. For those derivative instruments to which the Company has applied hedge accounting, the change in fair value for the effective portion of the derivative is recorded in other comprehensive income from the date of designation. For those derivative instruments to which the Company does not apply hedge accounting, the change in fair value is recognized in other gains (losses) and (expenses).

The fair value of derivative instruments is 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. As at December 31, 2017, the interest rates ranged from 2.0% to 4.7% (December 31, 2016 – 1.7% to 3.3%). The fair values of the Company's asset (liability) hedging instruments are as follows:

	Designated as Hedging Instrument	Maturity as at December 31, 2017	**December 31, 2017**	December 31, 2016
Derivative assets				
Bond forward contracts	Yes	January 2018	**$ 5,739**	$ 6,279
Interest rate swaps	Yes	June 2025 - March 2027	**10,696**	2,683
Cross currency swaps	No	N/A	**—**	3,476
Total			**$ 16,435**	$ 12,438
Derivative liabilities				
Bond forward contracts	Yes	January 2018	**$ 365**	$ —
Interest rate swaps	Yes	March 2022 - July 2024	**844**	6,469
Cross currency swaps	No	January 2018	**10,134**	—
Total			**$ 11,343**	$ 6,469

23. INVESTMENT IN JOINT VENTURES

As at December 31, 2017, the Company had interests in four joint ventures that it accounts for using the equity method. The Company, through direct and indirect investment, owns on a consolidated basis a 53.1% interest in M+M Urban Realty LP ("Main and Main Urban Realty"), a joint venture between the Company, Main and Main Developments LP ("MMLP", further described in Note 24) and an institutional investor. The Company has determined that Main and Main Urban Realty is a joint venture as all decisions regarding its activities are made unanimously as between MMLP and the Company on one hand, and the institutional investor on the other hand. In addition, the Company has a 50% interest in two joint ventures that operate shopping centres known as "College Square" and "Royal Orchard", located in Ottawa and Markham, Ontario, respectively. Lastly, the Company owns a 50% interest in a fourth joint venture, Fashion Media Group GP Ltd., that organizes and presents "Toronto Fashion Week" events at the Company's Yorkville Village property.

Summarized financial information of the joint ventures' financial position and performance is set out below:

As at	**December 31, 2017**	December 31, 2016
Total assets	**$ 674,476**	$ 526,284
Total liabilities	**(262,397)**	(220,371)
Net assets at 100%	**412,079**	305,913
The Company's investment in equity accounted joint ventures	**$ 202,231**	$ 146,422

For the year ended	**December 31, 2017**	December 31, 2016
Property revenue	**$ 21,223**	$ 18,075
Property expenses	**(7,727)**	(6,571)
Increase in value of investment properties, net	**66,610**	9,072
Other income and expenses	**(3,387)**	(2,837)
Income before income taxes	**76,719**	17,739
Current income tax expense (recovery)	**36**	(11)
Net income and total comprehensive income at 100%	**$ 76,683**	$ 17,750
The Company's share of income in equity accounted joint ventures (1)	**$ 42,860**	$ 12,437

(1) On December 14, 2017, the Company sold a 50% interest in its Royal Orchard property and now owns its remaining 50% interest through an equity accounted joint venture.

As at December 31, 2017, the Company's equity investment in MMUR is approximately $121.7 million (December 31, 2016 – $120.3 million) via its direct and indirect interests which includes a loan to one of its joint venture partners. In the third quarter of 2017, MMUR announced its intention to sell 20 of its 23 properties which are expected to be sold within the next 9 months.

During 2017, the Company received distributions from its joint ventures of $5.9 million (2016 - $52.5 million) and made contributions to its joint ventures of $4.9 million (2016 - $25.0 million).

As at December 31, 2017, Main and Main Urban Realty had outstanding commitments related to acquisitions, subject to customary closing conditions, as well as capital commitments for an aggregate amount of $26.6 million (December 31, 2016 – $17.2 million). There were no outstanding commitments for College Square, Royal Orchard or Fashion Media Group GP Ltd. as at December 31, 2017. The Company's share of these outstanding commitments relating to its joint ventures at its interest is $14.1 million. Main and Main Urban Realty, College Square, Royal Orchard, and Fashion Media Group GP Ltd. did not have any contingent liabilities as at December 31, 2017 and 2016.

24. SUBSIDIARY WITH NON-CONTROLLING INTEREST

The Company contractually controls MMLP, a subsidiary in which it holds a 67% ownership interest, until such time that all loans receivable from the joint venture partner have been paid in full. At such time that the loans receivable to the Company are repaid, all decisions regarding the activities of MMLP will require unanimous consent of the partners.

Non-controlling interest in the equity and the results of this subsidiary, before any inter-company eliminations, are as follows:

	December 31, 2017	December 31, 2016
Non-current assets	**$ 145,894**	$ 111,865
Current assets	**1,907**	3,471
Total assets	**$ 147,801**	$ 115,336
Current liabilities	**488**	729
Total liabilities	**488**	729
Net assets	**$ 147,313**	$ 114,607
Non-controlling interests	**$ 48,613**	$ 37,820

	Year ended December 31	
	2017	2016
Revenue	**$ 2,967**	$ 3,341
Share of profit from joint ventures	**34,267**	9,258
Expenses	**(3,684)**	(3,274)
Net income	**$ 33,550**	$ 9,325
Non-controlling interests	**$ 11,071**	$ 3,078

	Year ended December 31	
	2017	2016
Cash provided by operating activities	**$ 1,391**	$ 310
Cash provided by financing activities	**(844)**	19,314
Cash used in investing activities	**(2,156)**	(17,883)
Net decrease in cash and cash equivalents	**$ (1,609)**	$ 1,741

25. CO-OWNERSHIP INTERESTS

The Company has co-ownership interests in several properties, as listed below, that are subject to joint control and represent 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.

		Ownership Interest	
Property	**Location**	**December 31, 2017**	December 31, 2016
101 Yorkville Avenue	Toronto, ON	**50%**	50%
2150 Lake Shore Blvd. West	Toronto, ON	**50%**	50%
816-838 11th Ave. (Glenbow)	Calgary, AB	**50%**	50%
King High Line	Toronto, ON	**50%**	50%
McLaughlin Corners	Brampton, ON	**50%**	50%
Midland (land)	Midland, ON	**50%**	50%
Rutherford Marketplace (land)	Vaughan, ON	**50%**	50%
Hunt Club – Petrocan	Ottawa, ON	**50%**	50%
Kanata Terry Fox (land)	Ottawa, ON	**50%**	50%
Hunt Club Marketplace	Ottawa, ON	**67%**	33%
Lachenaie Properties	Lachenaie, QC	**50%**	50%
South Oakville Properties [1]	Oakville, ON	**50%**	50%
Whitby Mall	Whitby, ON	**50%**	50%
Thickson Mall	Whitby, ON	**50%**	50%
Bow Valley Crossing (land)	Calgary, AB	**75%**	75%
Seton Gateway	Calgary, AB	**50%**	50%
Sherwood Park	Sherwood Park, AB	**50%**	50%
The Edmonton Brewery District	Edmonton, AB	**50%**	50%
West Oaks Mall	Abbotsford, BC	**50%**	50%
West Springs Village	Calgary, AB	**50%**	50%

[1] South Oakville Properties includes one property at 50% interest, with the remaining properties held at 100% interest.

26. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

(a) Accumulated other comprehensive income (loss)

Year ended December 31			**2017**			2016
	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
Unrealized gains (losses) on AFS investments in equity securities	**$ 45**	**$ —**	**$ 45**	$ 45	$ —	$ 45
Unrealized gains (losses) on cash flow hedges	**(11,743)**	**11,738**	**(5)**	(17,107)	5,364	(11,743)
Accumulated other comprehensive income (loss)	**$ (11,698)**	**$ 11,738**	**$ 40**	$ (17,062)	$ 5,364	$ (11,698)

(b) Tax effects relating to each component of other comprehensive (loss) income

Year ended December 31			2017			2016
	Before-Tax Amount	**Tax (Expense) Recovery**	**Net of Tax Amount**	Before-Tax Amount	Tax (Expense) Recovery	Net of Tax Amount
Unrealized gains (losses) on cash flow hedges	**14,350**	**(3,817)**	**10,533**	5,790	(1,540)	4,250
Reclassification of losses on cash flow hedges to net income	**1,642**	**(437)**	**1,205**	1,518	(404)	1,114
Other comprehensive income (loss)	**$ 15,992**	**$ (4,254)**	**$ 11,738**	$ 7,308	$ (1,944)	$ 5,364

27. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

		Year ended December 31	
	Note	**2017**	2016
Straight-line rent adjustment		**$ (2,684)**	$ (5,848)
Investment properties selling costs	18	**1,667**	2,435
Realized (gain) loss on sale of marketable securities	18	**1,165**	(79)
Unrealized (gain) loss on marketable securities classified as FVTPL	18	**(3,313)**	(1,071)
Net (gain) loss on prepayments of debt	18	**3,032**	1,119
Non-cash compensation expense		**4,534**	3,698
Deferred income taxes	19	**122,948**	90,570
Other non-cash items		**(209)**	(18)
Total		**$ 127,140**	$ 90,806

(b) Net change in non-cash operating items

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

	Year ended December 31	
	2017	2016
Amounts receivable	**$ (4,262)**	$ (3,470)
Prepaid expenses	**(935)**	(2,307)
Trade payables and accruals	**(2,855)**	(2,396)
Tenant security and other deposits	**4,214**	3,167
Other working capital changes	**(3,324)**	(3,700)
Total	**$ (7,162)**	$ (8,706)

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

	Year ended December 31	
	2017	2016
Advances of loans and mortgages receivable	**$ (115,902)**	$ (54,521)
Repayments of loans and mortgages receivable and deposits	**10,718**	59,797
Deposit on investment property	**—**	(189,200)
Investment in marketable securities, net	**(17,910)**	(742)
Proceeds from disposition of marketable securities	**11,307**	830
Total	**$ (111,787)**	$ (183,836)

(d) Cash and cash equivalents (bank indebtedness)

As at	December 31, 2017	December 31, 2016
Cash and cash equivalents [1]	**$ 11,507**	$ 12,217
Bank indebtedness	**(3,144)**	(15,914)
Total	**$ 8,363**	$ (3,697)

[1] Principally consisting of cash related to co-ownerships and properties managed by third parties.

28. 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 contingencies, 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 or as guarantor, for approximately $126.9 million (December 31, 2016 – $108.1 million) to various lenders in connection with certain third-party obligations, including, without limitation, loans advanced to its joint arrangement partners secured by the partners' interest in the joint arrangements and underlying assets.

(c) The Company is contingently liable by way of letters of credit in the amount of $34.9 million (December 31, 2016 – $32.3 million), 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 leases for land. Annual commitments under these ground leases are approximately $1.2 million (December 31, 2016 – $1.0 million) with a total obligation of $24.1 million (December 31, 2016 – $20.1 million).

(e) The Company is involved, in the normal course of business, in discussions, and has various agreements, with respect to possible acquisitions of new properties and dispositions of existing properties in its portfolio. None of these commitments or contingencies, individually or in aggregate, would have a significant impact on the financial position of the Company.

(f) The Company is contingently liable by way of a put option on a property by the owner that is exercisable up to October 2022.

29. RELATED PARTY TRANSACTIONS

(a) Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company and, as of December 31, 2017, beneficially owns 32.6% (December 31, 2016 – 36.4%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit. In the first quarter of 2017, Gazit disposed of 9,000,000 common shares 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. Such amounts consist of the following:

	Year ended December 31	
	2017	2016
Reimbursements for professional services	**$ 228**	$ 221

As at December 31, 2017, amounts due from Gazit was $nil (December 31, 2016 – $0.1 million).

(b) Joint ventures

During the year ended December 31, 2017, the Company earned fee income of $2.4 million (December 31, 2016 – $2.9 million) from its joint ventures. Also during the year ended December 31, 2017, the Company advanced $1.2 million (December 31, 2016 – $nil) to one of its joint ventures.

(c) Subsidiaries of the Company

These audited annual consolidated financial statements include the financial statements of First Capital Realty and all of First Capital Realty's subsidiaries, including First Capital Holdings Trust. First Capital Holdings Trust is the only significant subsidiary of First Capital Realty and is wholly owned by the Company.

(d) Compensation of Key Management Personnel

Aggregate compensation for directors and the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer included in corporate expenses is as follows:

	Year ended December 31	
	2017	2016
Salaries and short-term employee benefits	**$ 4,268**	$ 3,805
Share-based compensation (non-cash compensation expense)	**3,162**	2,315
	$ 7,430	$ 6,120

30. SUBSEQUENT EVENTS

First Quarter Dividend

The Company announced that it will pay a first quarter dividend of $0.215 per common share on April 18, 2018 to shareholders of record on March 29, 2018.

Redemption of Convertible Debenture

On January 25, 2018, the Company provided a notice of redemption to the holders of the remaining 4.45% Series J convertible debentures that the entire principal amount outstanding plus accrued interest would be redeemed in cash on February 28, 2018.

Disposition Activities

Subsequent to December 31, 2017 the Company entered into a definitive agreement to sell a 50.5% non-managing interest in six properties, or substantially all of its portfolio, in London, Ontario for $66.0 million. In addition, MMUR, in which the Company has a joint venture interest, has entered into a definitive agreement to sell 13 properties for $241.4 million. These transactions are expected to close before the end of the first quarter, subject to standard closing conditions.

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