



# 2019 Annual Report



## FORWARD-LOOKING STATEMENT ADVISORY

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Certain statements contained in this MD&A constitute forward-looking statements. Other statements concerning First Capital'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 First Capital'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, the ability of the Trust to make loans at the same rate or in the same amount as repaid loans, amount of development costs, capital expenditures, operating costs and corporate expenses, level and timing of acquisitions of income-producing properties, the Trust's ability to complete dispositions and the timing, terms and anticipated benefits of any such dispositions, the Trust's ability to redevelop, sell or enter into partnerships with respect to the future incremental density it has identified in its portfolio, number of units outstanding, the Trust's ability to qualify as a real estate investment trust under the Tax Act and numerous other factors. Moreover, the assumptions underlying the Trust'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 First Capital'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, property taxes and income taxes; First Capital'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 Trust's business, including the repayment of existing indebtedness as well as development, intensification and acquisition activities; changes in interest rates and credit spreads; organizational structure; changes to credit ratings; the availability of a new competitive supply of retail properties which may become available either through construction, lease or sublease; the Trust's ability to: execute on its Urban Investment Strategy, including with respect to dispositions, capitalize on competitive advantages, optimize portfolio assets and accelerate value delivered to its investors and stakeholders, remain ahead of changing market conditions, surface unrecognized value, reach its demographic targets and ensure the Trust retains its best in class position; 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 Trust; uninsured losses and First Capital's ability to obtain insurance coverage at a reasonable cost; market risk; loss of key personnel; the ability of tenants to maintain necessary licenses, certifications and accreditations and risks and uncertainties related to the effects of COVID-19 on First Capital, including the length, spread and severity of the pandemic, the nature and extent of the measures taken by all levels of government to mitigate against the severity and spread of the virus, the impact of the virus and government authorities' and public health officials' responses thereto on: our tenants' ability to pay rent in full or at all, domestic and global credit and capital markets, our ability to access capital on favourable terms or at all, the health and safety of our employees and our tenants' personnel and domestic and global supply chains, among other risks related to COVID-19. Given the evolving circumstances surrounding COVID-19, it is difficult to predict how significant the adverse impact will be on the global and domestic economy, the business, operations and financial position of the REIT's tenants, and the business operations and financial position of the REIT.

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 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 11, 2020 and the accompanying letter to unitholders as of August 14, 2020 and are qualified by these cautionary statements.

## CORPORATE PROFILE

First Capital is a leading developer, owner and manager of mixed-use real estate located in Canada's most densely populated cities. First Capital's focus is on creating thriving urban neighbourhoods to generate value for businesses, residents, communities and our investors.

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# Message from the President & CEO



Dear fellow unitholders

In 2019, we made monumental advances across many areas of our business. Launching our super urban strategy, converting to a REIT, evolving into a widely held company and the significant advances made to our culture and values are all things that come to mind.

Instead of reviewing the year as I normally would, I refer you to our Annual Report and Investor Presentation this year so that I can address more timely items as so much has changed since 2019 came to a close.

As I write this letter, five months have passed since COVID-19 was declared a global pandemic and the government imposed lockdowns. We have all become accustomed to working remotely, physically distancing and wearing masks to protect each other from the spread of the virus.

Going back to the start of the pandemic, we immediately prioritized the health and well being of our employees, tenants and the communities in which we operate.

Businesses that were deemed non-essential by governments were obligated to close. Notwithstanding that well over 90% of our retail tenants provide necessity-based goods and services, only half were permitted to be fully operational with the remaining tenants forced to close or to operate in a significantly reduced capacity. We quickly responded by launching First Capital's Small Business Support Program (SBSP)

as many of our small business tenants were expressing a high degree of anxiety around their impending April rent payments. This program provided immediate rent relief to our small business tenants. As a reminder, there was no government rent support program at the time.

Since then, the government's Canada Emergency Commercial Rent Assistance (CECRA) program has largely replaced our SBSP. First Capital has fully participated in CECRA for all qualifying tenants. This had a negative impact on our second quarter results, but this investment in our tenant base is very important. The vast majority of our qualifying tenants have thriving profitable businesses that were turned upside down from the pandemic induced closures. They simply need a bridge to the other side. Besides being the right thing to do socially, it is also in our best long-term interest as this group is important to our tenant mix and with the assistance of this program they will emerge from the pandemic in a stronger position to adapt, reinvest in their stores and grow their business. Our relationship with these tenants has also strengthened.

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While we are still in the recovery phase, we have grown increasingly optimistic.

Today, virtually all our tenants are now open across the country and are doing increasingly higher sales volumes. Our development properties have all resumed construction activities with no material impact to project returns. Our density pipeline continues to be advanced through the entitlement process, including the submission of our rezoning application for our exciting Christie Cookie property in Toronto. Our disposition program has resumed with discussions currently underway with various prospective purchasers – this will be beneficial to our deleveraging objective which we continue to prioritize. We have an enviable liquidity position relative to our obligations that gives us significant financial flexibility. Our occupancy continues to hold in exceptionally well as we have received only a minimal amount of space back as a result of COVID-19. Perhaps most importantly, we have done a fair amount of leasing since the pandemic started, including over 400,000 square feet of lease renewals in Q2 alone when the lockdowns were most pronounced. The average rent increase on those renewals was over 10% which exceeds our long-term average. This is the result of a talented team and great real estate fundamentals for the types of properties we own. As the crisis eventually subsides and the focus of many capital market participants shifts from short term metrics, like monthly rent collection, to real estate fundamentals, First Capital will be served increasingly well.

We have a long history of sustainability, social responsibility, and strong governance. It is simply how we do business. We are proud of our recent accomplishments in this area such as a 10% reduction in absolute greenhouse gas emissions over a 4 year period ending 2019, being named by the Globe and Mail as one of Greater Toronto's Top 100 employers for 2020 and once again achieving "AAA" rating – the highest possible from Morgan Stanley Capital International

(MSCI) for our environmental, social and governance (ESG) standards and disclosures. We aspire to uphold our position as an industry leader in ESG practices.

The world is witnessing many new challenges and while the pandemic health crisis supersedes all other topics in this letter, the subject of equity, diversity and inclusion is an increasingly important one. First Capital has and always will be an organization committed to a culture of respect and inclusion, where employees have equal access to opportunities and advancement in the workplace. We have signed the BlackNorth Initiative's CEO pledge to end anti-black and systemic racism in Canada and we are committed to doing our part to enhance our culture and develop the diverse talent in our organization.

I want to conclude my remarks by acknowledging the incredible efforts of the First Capital team. Our team has never been stronger. This is a testament to the culture we have built and although we have been working apart, we remain very much together.

I would like to thank our Board for their guidance, our executive team for the exceptional leadership they have demonstrated through a very unusual period, and our investors for your continued confidence in us.

Respectfully,



Adam Paul  
*President & Chief Executive Officer*



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# Business and Strategy Overview

## Our business

First Capital Real Estate Investment Trust, with **\$10.2 billion** in assets, is one of Canada's leading developers, owners and operators of mixed-use urban real estate in Canada's most densely populated neighbourhoods.

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## Our purpose

**Creating thriving urban neighbourhoods that generate long-term value for businesses, residents, communities and our investors.**

Our mixed-use developments and retail offerings are designed to become vibrant places that meet the needs of everyday urban life – bringing together people, public spaces, retail shops and services, public art, and access to public transportation.

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## Our operations



**YYZ**  
TORONTO  
HEADQUARTERS



**FCR.UN**  
LISTED ON TSX



**158**  
PROPERTIES



**23.5M**  
SQ. FT. OF GLA



**4,206**  
TENANTS



**373**  
EMPLOYEES



# Our values and our corporate responsibility and sustainability program guide our actions

Read more about our approach to corporate responsibility and sustainability in our 2018 Corporate Responsibility and Sustainability Report



**Collaboration**

One Team,  
One Purpose



**Innovation**

Freedom to challenge  
the status quo



**Excellence**

Be the best  
at what you do



**Accountability**

Deliver what  
you promised



**Passion**

Love what you do



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## Our super urban strategy

Creating thriving super urban neighbourhoods that drive sustainable growth in cash flow and capital appreciation of our best in class portfolio.

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We achieve this by:

- ▶ **Investing in high-quality, mixed-use properties** to build large positions in targeted high growth neighbourhoods
- ▶ **Fully integrating retail** with other uses to create thriving urban neighbourhoods
- ▶ **Optimizing the portfolio** through active asset management
- ▶ **Surfacing substantial unrecognized value** in our incremental density pipeline through the development process
- ▶ **Completing strategic dispositions** to fund our investment program and to reduce leverage post the April 2019 share repurchase transaction
- ▶ **Actively managing our balance sheet** to maintain financial strength and flexibility and a competitive cost of capital



## Our target markets

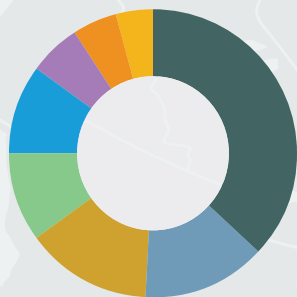
We target specific super urban neighbourhoods within Canada's largest and fastest growing cities.



These neighbourhoods are located in Toronto, Montreal, Calgary, Vancouver, Edmonton and Ottawa. We have achieved critical mass in each of our target markets, which helps generate economies of scale and operating synergies, as well as deep local knowledge of our properties, tenants, neighbourhoods and markets in which we operate.

Within each of these markets, we own some of the best located properties in neighbourhoods with strong demographics that we expect will continue to get stronger over time, thereby attracting the most desirable tenants with the highest rent growth potential and the most compelling opportunities for value creation.

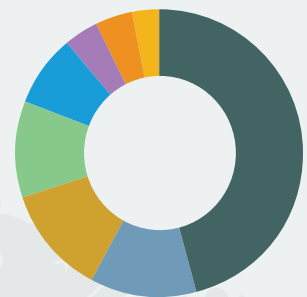
## Urban Markets



% of Annual Minimum Rent\*

% of Portfolio Value\*

Greater Toronto Area	37%	47%
Greater Montreal Area	14%	12%
Greater Calgary Area	14%	12%
Greater Vancouver Area	10%	11%
Greater Edmonton Area	10%	8%
Greater Ottawa Area	6%	4%
Kitchener/Waterloo/Guelph Area	5%	3%
Other	4%	3%



**Total**

**100%**

**100%**

\*As at December 31, 2019



## Creating neighbourhoods for everyday urban life™

Currently, over 90% of our revenues come from retail tenants who provide the essential products and services consumers need everyday, including grocery stores, pharmacies, liquor stores, banks, restaurants, cafés, fitness centres, medical services, childcare facilities and other professional and personal services. In each of our properties, we strive to assemble the right mix of complementary uses to best serve the local community and contribute to thriving urban neighbourhoods.



### Strategic and Diversified Retail Tenant Mix

	# of Stores	% of Rent	
Grocery Stores	124	17.0	Loblaws sobey metro save on foods WHOLE FOODS MARKET Longo's
Medical, Professional & Personal Services	1,416	15.4	Alberta Health Services UPS Allstate H&R BLOCK
Restaurants and Cafes	975	14.4	Tim Hortons RECIPE freshii McDonald's aroma Chick-fil-A
Pharmacies	125	9.1	SHOPPERS DRUG MART Rexall LONDON DRUGS Jean Coutu MEKESON Brant
Banks & Credit Unions	201	8.3	TD RBC CIBC BMO Desjardins NATIONAL BANK
Fitness Facilities	82	3.6	GoodLife FITNESS EQUINOX LAIFITNESS. Orangetheory ANYTIME FITNESS SOULCYCLE
Liquor Stores	95	3.3	LCBO BEER STORE BC LIQUOR STORE SAO ALCANNA. WESTERN CELLARS
Daycare & Learning Centres	102	1.4	KUMON brightpath OXFORD KOKO WILLowbrae ROTHWOOD
Other Necessity-Based Retailers	529	18.4	Walmart DOLLARAMA GNC WINNERS' PETS MARY
Other Tenants	557	9.1	CINEPLEX west elm SleepCountry NORDSTROM CHANEL

As at December 31, 2019

**Growing our portfolio**

Urban municipalities where we operate continue to focus on increasing density within the existing boundaries of infrastructure.



This provides us with multiple development and redevelopment opportunities within our existing portfolio of urban properties. These opportunities are primarily comprised of redevelopments and expansions of existing properties that add density to the site and improve the quality of the property, which in turn leads to meaningful growth in property value and rental income. We will continue to optimize our development activity by concentrating our investment capital in higher growth, densely populated super urban neighbourhoods.

The property acquisition environment remains extremely competitive for assets of similar quality and location to those we currently own. Asset valuations reflect strong demand for these properties, particularly given their mix of stable cash flow with meaningful residential intensification potential. As a result, our property acquisitions typically do not provide accretion to our results in the immediate term. However, we 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 funds from operations and net asset value over time. Therefore, we expect to continue to focus on development and redevelopment of existing assets as the primary means to grow the portfolio, while continuing to make highly selective acquisitions that complement the existing portfolio, when and if opportunities arise.

*25 million square feet of incremental density within our existing portfolio*





## 27 public art installations across our portfolio



### Actively managing our assets

We view proactive management of our portfolio as a core competency and an important part of our strategy.

Proactive management means we continually invest in our properties to ensure they retain their market leading position. We strive to maintain the highest standards in design, appearance and customer amenities in our properties including the addition of public art installations and enhancing connectivity to transit and the local community. We are highly focused on maximizing the value and competitive position of our properties, by proactively evolving our tenant mix to attract the right tenants with the highest rent growth potential.

Our executive leadership team is centralized at our head office in Toronto, which ensures that best practices, procedures and standards are applied consistently across our operating markets through local teams.

### Our lending activities

We provide co-owner financing, priority mortgages and mezzanine loans to third parties in connection with certain transactions and partnerships.

These loans and mortgages receivable are secured and often provide us with the opportunity to acquire full or partial interests in the underlying assets that are consistent with our investment strategy through rights, options or negotiated transactions. Therefore, in addition to generating interest income and fees, these lending activities provide an alternative means to obtaining purchase options and/or participation in projects which may otherwise have not been accessible. Additionally, from time to time, we partner with experienced real estate lenders and investment companies whose primary business is lending which helps to mitigate our risk.



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### Managing our balance sheet

We seek to maintain financial strength and flexibility to support a competitive cost of debt and equity capital over the long term. Our capital structure is key to financing growth and providing sustainable distributions to our unitholders.

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**BBB -**  
S&P CREDIT RATING

**BBB**  
DBRS CREDIT RATING

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**46.7%**  
DEBT TO ASSETS

**4.0%**  
WEIGHTED AVERAGE COST  
OF FIXED RATE DEBT

**5.1 YEARS**  
WEIGHTED AVERAGE TERM TO  
MATURITY OF FIXED RATE DEBT


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**\$7.0 BILLION**  
UNENCUMBERED ASSET POOL

**69.3%**  
OF ASSETS ARE UNENCUMBERED

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We believe our capital structure, comprised of senior unsecured debt, mortgage debt, revolving credit facilities, bank debt, and equity provides financing flexibility and reduces risk, while generating an attractive risk-adjusted return on investment. We recycle capital through selective dispositions of full or partial interests of our properties and, if deemed appropriate, we will issue equity to finance our growth and strengthen our financial position.





## Share repurchase transaction

On April 16, 2019 we completed the repurchase of 36,000,000 common shares from Gazit Globe Ltd. ("Gazit"), at a price of \$20.60 per share for gross proceeds to Gazit of approximately \$742 million. The share repurchase was contingent on Gazit completing a secondary offering of 22,000,000 of its FCR common shares at a price of \$20.60 per share to a syndicate of underwriters for gross proceeds to Gazit of approximately \$453 million. Combined, these transactions reduced Gazit's ownership in FCR from 33.3% to 9.9%. During the fourth quarter, Gazit sold a portion of its remaining interest in FCR, reducing its ownership to 6.7%. Subsequent to year-end, Gazit further reduced its ownership interest in FCR from 6.7% to 4.4%.

The share repurchase transaction was funded primarily through unsecured bank term loans. We intend to de-lever by disposing of assets that are inconsistent with our Super Urban Strategy.



## REIT Conversion

We completed the plan of arrangement to convert our company from a corporation to a real estate investment trust on December 30, 2019. We began trading as a REIT on the Toronto Stock Exchange on December 30, 2019 under the symbol "FCR.UN". Further details on the reorganization were set forth in an information circular that was mailed to our shareholders on November 1, 2019 and is available on SEDAR.



*Inclusion in the S&P/TSX  
Capped REIT Index in 2020*

## Measuring our progress

As we continue to advance our Super Urban Strategy, we measure our progress through a number of key metrics.

### Super Urban Portfolio Metrics

We define a super urban property based on its proximity to transit, its “Walkability Score”, and most importantly its population density and expect to continue to improve these metrics over time through our investment and disposition activity. We are targeting further growth in population density and aim to reach an average population density of 300,000 by 2021.

**99%** 

Currently, over 99% of our properties are located within a 5-minute walk to public transit.

**78** 

Our portfolio has a “Walkability Score” of 78 which is considered “Very Walkable” where most errands can be accomplished on foot.

**290,000** 

Average population density within a five-kilometre radius of each of our properties, up 85,000 or 40% from December 2016 making us a leader in North America on this metric.





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## Disposition Program

We have an objective to sell 100% interests in properties that are deemed to be inconsistent with our Super Urban Strategy. We also have an objective to sell 50% non-managing interests to institutional partners in certain stable but growing properties, to ultimately expand our position in these markets without increasing our investment capital. Combined, these properties represented approximately 15% of our total portfolio or \$1.5 billion in value when we set this target in April of 2019, following the share repurchase transaction. We expect to complete the disposition program in 2021. We anticipate the outcome of this activity to be a reduction in our leverage to similar levels as of year-end 2018, an increase in the weighting of large strategic

neighbourhood positions in our portfolio, a meaningful improvement in the quality of our portfolio and an incremental density pipeline that exceeds the leasable area of our portfolio at the beginning of this program, which was approximately 23 million square feet.

- During 2019, we completed \$835 million in property dispositions that were deemed inconsistent with our super urban strategy, including exiting entire markets such as Red Deer and Quebec City
- Our Debt to Assets and Debt to EBITDA declined from 48.9% and 10.9x respectively, following the share repurchase in the second quarter of 2019 to 46.7% and 10.0x at year end 2019

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## Surfacing value in and growing our incremental density pipeline

Currently, 7.1 million square feet or 28.4% of our incremental density pipeline of 25.0 million square feet is included in the fair value of our investment properties. We expect to increase this percentage, primarily by seeking entitlements for a meaningful portion of this density, which will lead to an increase in our net asset value.

- Completed 9.0 million square feet of entitlement submissions in 2019
- Grew our incremental density pipeline from 22.5 million square feet at December 31, 2018 to 25.0 million square feet at December 31, 2019
- Targeting an additional 4.0 million square feet of entitlement submissions in 2020

## Growth in average rental rate

We expect, as a result of our Super Urban Strategy, that the annual growth in our average rental rate will continue to accelerate above its five year historical average of 2.4% (2014-2018)

IN 2019, OUR AVERAGE RENTAL RATE GREW

**5.0%**

WHICH WAS WELL ABOVE ITS FIVE YEAR HISTORICAL AVERAGE

OUR AVERAGE RENTAL RATE OF \$21.25 PER SQUARE FOOT IS

**30% HIGHER**

THAN THE AVERAGE RENTAL RATE OF OUR CANADIAN RETAIL PEER GROUP

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# Corporate Responsibility And Sustainability

**Corporate Responsibility and Sustainability (“sustainability”) at First Capital encompasses all aspects of our environmental, social and governance (ESG) practices.**

Sustainability has always been integral to the responsible management of every aspect of our business and the mitigation of various risks. By taking a holistic approach to ESG, we are focused on reducing our environmental impact while creating thriving and dynamic urban neighbourhoods and at the same time, delivering long-term value for our stakeholders. Simply put, it makes good business sense.

To support our commitment to sustainability leadership, we have in place robust capabilities to measure and report on our progress and to continually assess and improve our environmental programs each year. We recognize that our leadership in sustainability practices is important to our tenants and investors, as well as our employees and the communities in which we operate. We are committed to transparency and ensuring that our sustainability reporting is accurate, meaningful and accessible to all stakeholder groups. We employ a full-time Director of Sustainability who is responsible for leading sustainability reporting initiatives and driving continuous ESG engagement and improvement across our organization, including through co-chairing our ESG Taskforce with our Chief Operating Officer.

First Capital published its first corporate responsibility and sustainability report (“CRS”) in 2009. Since 2010, we have had a third-party conduct assurance on selected sustainability performance indicators, including greenhouse gas emissions and energy use. We have used the Global Reporting Initiative (GRI) framework for corporate responsibility reporting since 2011. In addition to GRI, we continue to monitor

international reporting trends, including the work of the Sustainability Accounting Standards Board (SASB). Our 2018 CRS report included a number of disclosures recommended by the SASB. We also respond annually to the Global Real Estate Sustainability Benchmark (GRESB) survey and the Carbon Disclosure Project’s (CDP) Climate Change questionnaire.

We recognize that our employees are at the core of our success and have well-developed programs promoting career development and supporting continuing education, including through tuition subsidies. First Capital encourages employee engagement and innovation through a value awards program, among other initiatives and also encourages employees to become unitholders through a unit purchase plan. First Capital is committed to the highest ethical standards, upholding a strict Anti-Corruption Compliance Policy and Code of Conduct and Ethics. As an entity with a social conscience, we are also committed to giving back by encouraging our employees to volunteer in the communities in which we operate, through participation in charitable initiatives that support vulnerable parts of the population, and to promote environmental improvements that help neighbourhoods thrive.

We believe that sound and effective corporate governance is essential to our performance and have adopted a governance framework that reflects our values, ensures that effective corporate governance practices are followed and that the board of trustees (the “Board”) functions independently of management. First Capital endorses the principle that the Board should have a balance of skills, experience and diversity. We believe that diverse Boards have enhanced decision-making abilities that lead to improved oversight and promote better overall corporate governance.



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**Our strength in ESG standards and disclosure is validated through numerous ratings, including achieving:**

**AAA**

**'AAA' rating, the highest possible**, in the Morgan Stanley Capital International (MSCI) ESG Ratings assessment for the past three years

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**4/40**

**4th place ranking out of 40** in Corporate Knights '2018 Future 40 Responsible Corporate Leaders in Canada' and included on this ranking list for five consecutive years

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**ESG  
SCORES**

**Awarded high ESG Quality Scores** across all three categories by Institutional Shareholder Services in 2019; on a scale of 1-10 with 1 being the highest: **ENVIRONMENTAL : 2 / SOCIAL : 2 / GOVERNANCE : 1**

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## Our ESG Priorities and Progress

### ENVIRONMENTAL



#### Reduce our carbon emissions and energy use

- 13% reduction in absolute greenhouse gas (GHG) emissions, despite an 8% increase in gross leasable area (2014–2018)
- Current target: 9% reduction in carbon emissions by 2021, 2018 baseline
- Upgrade all parking lot and exterior lighting to energy efficient light emitting diode (LED) lamps by December 2020



#### Promote sustainable transportation

- > 99% of our portfolio within a 5-minute walk of public transit
- Average Walk Score for our portfolio is 78 (very walkable)
- Over 160 electric vehicle charging stations; goal to have electric charging stations installed at all our properties by 2024



#### Achieve green building certifications

- Achieve Building Owners and Managers Association's Building Environmental Standards (BOMA BEST) certification at all applicable properties by 2021; 76% of our portfolio is certified, as of December 31, 2019
- Certify all new construction projects to Leadership in Energy and Environmental Design (LEED) standards (subject to tenant acceptance); 16% of our portfolio (119 projects) is certified to LEED as of December 31, 2019



#### Effectively manage climate change risk and resilience

- Actively working to better understand the risks of climate change, incorporating this into our business continuity planning and in turn, increasing the resiliency of our properties and communities
- Reviewing the recommendations and guidance put forth by the Task Force on Climate-related Financial Disclosures (TCFD) and are committed to defining how best to apply them to our business and across our portfolio.
- Actively managing and reducing our carbon footprint

## SOCIAL



### Foster an engaged and diverse workforce

- Ranked as the most gender diverse company in Canada by Evolve Funds in 2017
- Strong gender diversity metrics achieved through all levels of the organization; over 50% of management positions are held by females including the executive leadership team



### Be one of the best places to work

- Recognized by the Globe and Mail as one of the Greater Toronto Area's top employers in 2019
- Best in class employee engagement score in most recent employee survey



### Be a good corporate citizen in the communities we operate

- Long-standing support of public arts, now with 27 installations across our portfolio
- Launching the FCR Foundation in 2020; employee-led charitable giving and volunteer program focused on community support
- Participation in numerous local neighbourhood and community volunteer events





## GOVERNANCE



Have a strong governance framework in place that:

- Reflects our values
- Ensures effective corporate governance practices are followed
- Ensures the Board functions independently of management
- Ensures diversity is considered in determining optimal board composition



Strive to be a governance leader by making it a priority to:

- Continuously adopt new and improved governance practices
- Follow recommendations as governance standards evolve



Monitor our progress:

- Reviewing our annual governance scores from ISS, the Globe and Mail Board Games and other similar rankings with our Board
- Providing opportunities for our unitholders to communicate directly with our Board

We know that progressive ESG accountability results in improved risk management and leads to increased property values, greater tenant satisfaction, more engaged employees, improved operational efficiencies and real cost savings. For more information on the Company's ESG practices, please refer to the latest Corporate Responsibility and Sustainability report on the Company's website at [www.fcr.ca/sustainability](http://www.fcr.ca/sustainability).



# 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 Real Estate Investment Trust ("First Capital", "FCR" or the "Trust") 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, 2019 and 2018. It should be read in conjunction with the Trust's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018. Additional information, including First Capital's current Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the FCR website at [www.fcr.ca](http://www.fcr.ca).

All dollar amounts are in thousands of Canadian dollars, unless otherwise noted. Historical results and percentage relationships contained in First Capital'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 11, 2020.

Effective December 30, 2019, First Capital Realty Inc. (the "Company") completed its Plan of Arrangement (the "Arrangement") to convert into a real estate investment trust ("REIT"). Under the Arrangement, Shareholders of the Company received one trust unit ("Trust Unit") or one Class B Limited Partnership Unit ("Exchangeable Unit") of a controlled limited partnership of the Trust, for each common share of the Company held. Consequently, any references to common shares, Shareholders and per share amounts relate to periods prior to the conversion on December 30, 2019 and any references to Trust Units, Unitholders and per unit amounts relate to periods subsequent to December 30, 2019. Since the Trust is a continuation of First Capital Realty Inc., the prior year comparatives contained in First Capital's unaudited interim and audited annual consolidated financial statements and MD&A are those of the Company.

## NON-IFRS FINANCIAL MEASURES

In addition to measures determined in accordance with International Financial Reporting Standards ("IFRS"), First Capital 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 real estate entities, and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

The following describe the non-IFRS measures First Capital currently uses in evaluating its financial performance.

### ***Proportionate Interest***

"Proportionate interest" or "Proportionate share" is defined by Management as First Capital's proportionate share of revenues, expenses, assets and liabilities in all of its real estate investments. Under IFRS, FCR's six 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 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 FCR's proportionate interest provides a useful and more detailed view of the operation and performance of First Capital'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 First Capital's debt metrics. In addition, FCR's lenders require Management to calculate its debt metrics on a proportionate interest basis.

To achieve the proportionate presentation of its six equity accounted joint ventures, Management allocates FCR'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, FCR exercises control over two partially owned ventures and consolidates 100% of the revenues, expenses, assets, and liabilities in the consolidated financial statements. In the reconciliations, the partially owned ventures are also presented as if they were proportionately consolidated. To achieve the proportionate presentation of its partially owned ventures, Management



subtracts the non-controlling interest's share (the portion FCR doesn't own) of revenue, expenses, assets, and liabilities on each relevant line item. FCR 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 FCR's legal claim to such items.

### ***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 First Capital's 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. First Capital calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("REALPAC") as published in its most recent "White Paper on Funds from Operations and Adjusted Funds From Operations for IFRS" dated February 2019. 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 FCR's net income that may not be the most appropriate determinants of the long-term operating performance of FCR, such as investment property selling costs; tax on gains or losses on disposals of properties; deferred income taxes; distributions on Exchangeable Units; fair value gains or losses on Exchangeable Units; fair value gains or losses on unit-based compensation; and any gains, losses or transaction costs recognized in business combinations. FFO provides a perspective on the financial performance of FCR 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 and ACFO" section of this MD&A.

### ***Adjusted Cash Flow from Operations***

Adjusted Cash Flow from Operations ("ACFO") is a supplementary measure First Capital began using in 2017 to measure operating cash flow generated from the business. ACFO replaced FCR's previously reported Adjusted Funds from Operations ("AFFO") as its supplementary cash flow metric. FCR calculates ACFO in accordance with the recommendations of REALPAC as published in its most recent "White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS" dated February 2019.

Management considers ACFO a meaningful metric to measure operating cash flows as it represents sustainable cash available to pay distributions to Unitholders. 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 FCR'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 and ACFO" section of this MD&A.

### ***Weighted average units or shares outstanding for FFO***

For purposes of calculating per unit or per share amounts for FFO, the weighted average number of diluted units or shares outstanding includes the weighted average outstanding Trust Units or common shares and Exchangeable Units as at the end of the period; and assumes conversion of all outstanding Deferred Units, Restricted Units, Performance Units and any dilutive Options as at the end of the period.

### ***FFO and ACFO Payout Ratios***

FFO and ACFO payout ratios are supplementary non-IFRS measures used by Management to assess the sustainability of First Capital's distribution payments. The FFO payout ratio is calculated using distributions declared per unit divided by FFO per unit. The ACFO payout ratio is calculated on a rolling four quarter basis by dividing total cash distributions 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 seasonal fluctuations in ACFO period over period.

### ***Enterprise Value***

Enterprise value is the sum of the carrying value of First Capital's total debt on a proportionate basis and the market value of FCR's Trust Units and Exchangeable Units outstanding at the respective quarter end date. This measure is used by FCR to assess the total amount of capital employed in generating returns to Unitholders.

### ***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 First Capital'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.

### ***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, fair value gains or losses on Exchangeable Units, fair value gains or losses on unit-based compensation and other non-cash or non-recurring items. FCR 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 First Capital to obtain various forms of debt financing at a reasonable cost of capital.

### ***Net Asset Value***

Net Asset Value ("NAV") represents the proportionate share of First Capital's total assets less the proportionate share of its total liabilities excluding deferred tax liabilities and Exchangeable Units.

NAV per unit represents NAV, as calculated above, divided by the number of diluted units outstanding as at the end of the period. For purposes of calculating per unit amounts for NAV, the number of diluted units outstanding is calculated as follows:

- Includes all outstanding Trust Units as at the end of the period;
- Includes all outstanding Exchangeable Units as at the end of the period; and
- Assumes conversion of all outstanding Deferred Units, Restricted Units, Performance Units and any dilutive Options as at the end of the period.

## OPERATING METRICS

First Capital 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. FCR uses these operating metrics to monitor and measure operational performance period over period. To align FCR's GLA reporting with its ownership interest in its properties, unless otherwise noted, all GLA is presented at FCR's ownership interest (20.9 million square feet at its ownership interest compared to 23.5 million square feet at 100% as at December 31, 2019). First Capital's operating metrics and GLA excludes residential GLA totaling 296,000 square feet and hotel GLA of 30,000 square feet as amounts are not significant at this time. In addition, these metrics exclude the operating metrics related to First Capital's interest in M+M Urban Realty LP ("MMUR") as its business operations are focused on developing future income-producing properties.

## SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

For the years ended December 31	2019	2018	2017
<b>Revenues, Income and Cash Flows</b> <sup>(1)</sup>			
Revenues and other income	\$ 779,822	\$ 756,024	\$ 722,860
NOI <sup>(2)</sup>	\$ 460,397	\$ 454,773	\$ 437,510
Increase (decrease) in value of investment properties, net	\$ 61,037	\$ 102,389	\$ 458,363
Net income attributable to Unitholders / Shareholders	\$ 401,345	\$ 343,606	\$ 633,089
Net income per unit / share attributable to Unitholders / Shareholders (diluted)	\$ 1.74	\$ 1.37	\$ 2.55
Weighted average number of units / shares - diluted - IFRS (in thousands)	230,810	250,802	249,413
Cash provided by operating activities	\$ 269,147	\$ 283,012	\$ 270,159
<b>Distributions / Dividends</b>			
Distributions / Dividends declared	\$ 165,224	\$ 215,537	\$ 210,433
Distributions declared per unit	\$ 0.072	\$ —	\$ —
Dividends declared per common share	\$ 0.645	\$ 0.860	\$ 0.860
Cash dividends paid	\$ 203,830	\$ 212,651	\$ 209,620
Cash dividends paid per share	\$ 0.860	\$ 0.860	\$ 0.860
<b>As at December 31</b>			
<b>Financial Information</b> <sup>(1)</sup>			
Investment properties <sup>(3)</sup>	\$ 9,752,130	\$ 9,768,275	\$ 9,396,359
Hotel property	\$ 62,199	\$ 58,604	\$ —
Total assets	\$ 10,161,360	\$ 10,453,055	\$ 9,968,552
Mortgages <sup>(3)</sup>	\$ 1,327,021	\$ 1,285,908	\$ 1,060,339
Credit facilities	\$ 899,165	\$ 626,172	\$ 581,627
Senior unsecured debentures	\$ 2,497,213	\$ 2,447,278	\$ 2,595,966
Exchangeable Units	\$ 25,010	\$ —	\$ —
Convertible debentures	\$ —	\$ —	\$ 54,293
Unitholders' / Shareholders' equity	\$ 4,426,592	\$ 4,978,242	\$ 4,647,071
Net Asset Value per unit / share <sup>(2)</sup>	\$ 23.39	\$ 22.59	\$ 21.85
<b>Capitalization and Leverage</b>			
Trust Units / Shares outstanding (in thousands)	217,954	254,828	244,431
Exchangeable Units	1,210	N/A	N/A
Enterprise value <sup>(2)</sup>	\$ 9,301,000	\$ 9,239,000	\$ 9,480,000
Net debt to total assets <sup>(2)(4)</sup>	46.7%	42.1%	43.4%
Weighted average term to maturity on mortgages, fixed rate unsecured term loans and senior unsecured debentures (years)	5.1	5.5	5.4



MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

As at December 31	2019	2018	2017
<b>Operational Information</b>			
Number of properties	158	166	161
GLA (square feet) - at 100%	23,528,000	25,456,000	25,390,000
GLA (square feet) - at ownership interest	20,927,000	23,854,000	23,991,000
Occupancy - Same Property - stable <sup>(2)</sup>	97.6%	97.4%	96.9%
Total portfolio occupancy	96.9%	96.7%	96.1%
Development pipeline and adjacent land (GLA) <sup>(5)</sup>			
Commercial pipeline (primarily retail)	2,258,000	2,287,000	2,862,000
Residential pipeline	22,778,000	20,262,000	18,856,000
Average rate per occupied square foot	\$ 21.25	\$ 20.24	\$ 19.69
Commercial GLA developed and transferred online - at ownership interest	201,000	283,000	131,000
Residential units developed and transferred online	247	N/A	N/A
Same Property - stable NOI - increase (decrease) over prior period <sup>(2)(6)</sup>	2.7%	2.7%	2.0%
Total Same Property NOI - increase (decrease) over prior period <sup>(2)(6)</sup>	3.3%	3.1%	2.5%
<b>Funds from Operations <sup>(2)(4)</sup></b>			
FFO	\$ 284,920	\$ 302,971	\$ 284,110
FFO per diluted unit / share	\$ 1.23	\$ 1.21	\$ 1.16
FFO payout ratio <sup>(7)</sup>	69.7%	71.1%	74.2%
Weighted average number of units / shares - diluted - FFO (in thousands)	230,810	250,474	245,153
<b>Adjusted Cash Flow from Operations <sup>(2)(4)</sup></b>			
ACFO	\$ 252,416	\$ 267,168	\$ 243,645
ACFO payout ratio on a rolling four quarter basis	80.8%	79.6%	86.0%

<sup>(1)</sup> As presented in First Capital's IFRS consolidated financial statements.

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

<sup>(3)</sup> Includes properties and mortgages classified as held for sale.

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

<sup>(5)</sup> At First Capital's ownership interest. Square footage does not include potential development on properties held by FCR's MMUR joint venture.

<sup>(6)</sup> Calculated based on the year-to-date NOI. Prior period amounts not restated for current period property categories.

<sup>(7)</sup> For 2019 only, FFO payout ratio was calculated using cash dividends.

# BUSINESS AND OPERATIONS REVIEW

## Real Estate Investments

### *Investment Property Categories*

First Capital categorizes its properties for the purposes of evaluating operating performance including Total Same Property NOI. This enables FCR 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, FCR 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 properties. 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.

First Capital has applied the above property categorization to the fair value, capital expenditures as well as leasing and occupancy activity on its portfolio, and to its Same Property NOI analysis to further assist in understanding FCR's real estate activities and its operating and financial performance.

**Portfolio Overview**

As at December 31, 2019, First Capital had interests in 158 properties, which were 96.9% occupied with a total GLA of 20.9 million square feet at FCR's ownership interest (23.5 million square feet at 100%) and a fair value of \$9.7 billion as well as development land with a fair value of \$92.0 million. This compares to 166 properties, which were 96.7% occupied with a total GLA of 23.9 million square feet at FCR's ownership interest (25.5 million square feet at 100%) and a fair value of \$9.8 billion and \$78.1 million, respectively, as at December 31, 2018.

The Same Property portfolio includes properties sub-categorized in Same Property – stable and Same Property with redevelopment. The Same Property portfolio is comprised of 125 properties with a total GLA of 16.7 million square feet at FCR's ownership interest (19.1 million square feet at 100%) and a fair value of \$6.6 billion. These properties represent 79.1% of FCR's property count, 80.0% of its GLA at FCR's ownership interest and 68.1% of its fair value as at December 31, 2019.

The balance of FCR's real estate assets consists of properties which are in various stages of redevelopment, properties acquired in 2019 or 2018 and properties in close proximity to them, as well as properties held for sale.

First Capital's portfolio based on property categorization is summarized as follows:

As at	December 31, 2019				December 31, 2018			
	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	115	14,435	97.6%	\$ 21.06	115	14,452	97.4%	\$ 20.81
Same Property with redevelopment	10	2,298	96.6%	17.78	10	2,275	97.8%	17.46
Total Same Property	125	16,733	97.5%	20.61	125	16,727	97.4%	20.35
Major redevelopment	14	2,851	94.4%	25.87	14	2,965	94.6%	24.53
Ground-up development	1	279	99.2%	32.36	1	147	98.8%	29.93
Acquisitions	9	228	94.7%	24.99	6	202	93.9%	24.91
Investment properties classified as held for sale	9	836	93.0%	13.57	9	836	92.5%	13.26
Dispositions	—	—	—%	—	11	2,977	96.0%	16.47
Total	158	20,927	96.9%	\$ 21.25	166	23,854	96.7%	\$ 20.24



First Capital's portfolio by major market is summarized as follows:

As at	December 31, 2019								December 31, 2018						
	(millions of dollars, except other data)	Number of Properties	GLA (000s sq. ft.)	Fair Value <sup>(1)</sup>	% of Total Fair Value	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent	Number of Properties	GLA (000s sq. ft.)	Fair Value <sup>(1)(2)</sup>	% of Total Fair Value	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent
Greater Toronto Area	51	6,840	\$ 4,487	47%	96.6%	\$ 24.43	37%	50	6,880	\$ 3,904	40%	97.0%	\$ 23.79	34%	
Greater Montreal Area	32	3,860	1,187	12%	96.5%	16.46	14%	32	4,384	1,278	14%	95.3%	16.73	15%	
Greater Calgary Area	17	2,723	1,200	12%	97.1%	23.24	14%	17	2,694	1,181	12%	97.2%	22.61	13%	
Greater Vancouver Area	17	1,785	1,059	11%	97.3%	25.16	10%	19	2,033	1,108	11%	97.3%	24.18	10%	
Greater Edmonton Area	12	2,279	811	8%	96.7%	19.44	10%	12	2,323	863	9%	98.1%	19.27	9%	
Greater Ottawa Area	13	1,304	399	4%	97.1%	18.85	6%	13	1,902	588	6%	96.6%	18.24	7%	
Kitchener/Waterloo/Guelph Area	5	1,042	334	3%	99.3%	18.83	5%	5	1,042	339	3%	98.4%	18.40	4%	
Other	11	1,094	254	3%	96.4%	15.80	4%	18	2,596	569	5%	95.9%	14.14	8%	
<b>Total</b>	<b>158</b>	<b>20,927</b>	<b>\$ 9,731</b>	<b>100%</b>	<b>96.9%</b>	<b>\$ 21.25</b>	<b>100%</b>	<b>166</b>	<b>23,854</b>	<b>\$ 9,830</b>	<b>100%</b>	<b>96.7%</b>	<b>\$ 20.24</b>	<b>100%</b>	

<sup>(1)</sup> At FCR's proportionate interest, excluding development land. Includes hotel property at net book value as at December 31, 2019 and December 31, 2018, respectively.

<sup>(2)</sup> Excludes fair value of MMUR's properties of \$88 million as at December 31, 2018.

Among First Capital's real estate investment portfolio are forty-three (2018 - forty) assets each with a value greater than \$85 million or size greater than 300,000 square feet. Together, these forty-three assets comprise \$6.0 billion (2018 - \$5.5 billion) or 62% (2018 - 56%) of FCR's aggregate \$9.8 billion investment portfolio asset value (2018 - \$9.8 billion). These assets, as a percentage of FCR's aggregate value, reflect FCR's focus on larger, but fewer strategic assets in its target urban markets.

## Investment Properties

A continuity of First Capital's investment in its property acquisitions, dispositions, development and portfolio improvement activities is as follows:

(millions of dollars)	Year ended December 31, 2019	
	Investment Properties	Development Land
Balance at beginning of year	\$ 9,690	\$ 78
Acquisitions		
Investment properties and additional adjacent spaces	188	31
Properties acquired for redevelopment	173	—
Development activities and property improvements	220	8
Consolidation of equity accounted joint venture	131	—
Increase (decrease) in value of investment properties, net	60	1
Dispositions	(810)	(25)
Other changes	8	(1)
<b>Balance at end of year<sup>(1)</sup></b>	<b>\$ 9,660</b>	<b>\$ 92</b>

<sup>(1)</sup> Includes investment properties classified as held for sale as at December 31, 2019 totaling \$159 million of investment properties.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – continued**

<i>(millions of dollars)</i>	Year ended December 31, 2018	
	Investment Properties	Development Land
Balance at beginning of year	\$ 9,317	\$ 79
Acquisitions		
Investment properties and additional adjacent spaces	130	2
Development activities and property improvements	259	8
Reclassifications from development land	11	(11)
Increase (decrease) in value of investment properties, net	88	11
Dispositions	(123)	(9)
Other changes	8	(2)
Balance at end of year <sup>(1)</sup>	\$ 9,690	\$ 78

<sup>(1)</sup> Includes investment properties classified as held for sale as at December 31, 2018 totaling \$66 million of investment properties and \$19 million of development land.

**2019 Acquisitions**
***Income-producing properties and Additional Adjacent Spaces***

During the year ended December 31, 2019, First Capital acquired four properties and increased its interest in the King High Line project, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	GLA (sq. ft.)	Acquisition Cost (in millions)
1.	1626 Martin Drive (Semiahmoo)	Surrey, BC	Q1	100%	9,200	\$ 7.0
2.	738-11th Avenue SW (Glenbow)	Calgary, AB	Q2	50%	15,700	6.1
3.	1100 King St. W. (Liberty Village) <sup>(1)</sup>	Toronto, ON	Q3	50%/30%	175,800	166.2
4.	134 Atlantic Avenue (Liberty Village)	Toronto, ON	Q3	100%	3,150	3.2
5.	Yorkville Village adjacent properties	Toronto, ON	Q4	100%	—	3.0
	<b>Total</b>				<b>203,850</b>	<b>\$ 185.5</b>

<sup>(1)</sup> FCR acquired an incremental interest of 50% and 30% of the Retail and Residential components, respectively.

***Development Properties***

During the year ended December 31, 2019, First Capital acquired three land parcels, one property slated for mixed use development in Yorkville as well as the remaining 46.9% interest in four properties held through Main & Main Urban Realty LP, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	Acreage	Acquisition Cost (in millions)
<b><i>Adjacent properties acquired for redevelopment</i></b>						
1.	140 Yorkville Avenue (Yorkville Village)	Toronto, ON	Q3	33%	0.6	\$ 59.7
	<b>Total properties acquired for redevelopment</b>				<b>0.6</b>	<b>\$ 59.7</b>
<b><i>Development lands</i></b>						
1.	1855 Leslie Street (Leslie and York Mills assembly)	Toronto, ON	Q1	100%	0.6	\$ 11.3
2.	Bow Valley Crossing <sup>(1)</sup>	Calgary, AB	Q1	20%	9.7	2.3
3.	Main & Main Urban Realty LP	Toronto, ON	Q3	46.9%	2.0	116.0 <sup>(2)</sup>
	- Yonge & Roselawn assembly					
	- Dundas & Aukland					
	- 400 King St. W.					
	- 1092 Kingston Rd. (retail at base of condo)					
4.	30-60 Montgomery Avenue (Yonge & Roselawn)	Toronto, ON	Q4	100%	0.5	17.3
	<b>Total development lands</b>				<b>12.8</b>	<b>\$ 146.9</b>

<sup>(1)</sup> In the second quarter, FCR disposed of its entire interest in this property.

<sup>(2)</sup> FCR acquired the remaining 46.9% interest with its partner in Main and Main Developments LP. FCR's acquisition cost was \$98.0 million.

## 2018 Acquisitions

### *Income-producing Properties and Additional Adjacent Spaces*

During the year ended December 31, 2018, First Capital acquired sixteen properties, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	GLA (sq. ft.)	Acquisition Cost (in millions)
1.	121 Scollard St. (Yorkville Village)	Toronto, ON	Q1	100%	4,500	\$ 8.4
2.	731, 739 - 10th Avenue SW (GM Glenbow)	Calgary, AB	Q1	50%	10,400	6.0
3.	812 - 11th Avenue SW (GM Glenbow)	Calgary, AB	Q1	50%	5,500	1.8
4.	Molson Building	Calgary, AB	Q2	75%	12,800	5.4
5.	Hazelton Hotel (Yorkville Village) <sup>(1)</sup>	Toronto, ON	Q3	60%	6,700	45.0
6.	775 King Street West (Liberty Village)	Toronto, ON	Q3	100%	18,000	23.7
7.	6555 West Boulevard (Kerrisdale Village)	Vancouver, BC	Q3	100%	30,400	19.4
8.	1525 Avenue Road	Toronto, ON	Q3	100%	3,200	12.0
9.	221 - 227 Sterling Road (Bloor & Sterling)	Toronto, ON	Q3	35%	29,400	6.8
10.	216 Elgin Street	Ottawa, ON	Q3	50%	6,200	5.7
11.	Yorkville Village adjacent property	Toronto, ON	Q3	100%	3,100	2.2
12.	290 Lawrence Avenue West (Avenue & Lawrence)	Toronto, ON	Q4	100%	5,800	12.2
13.	19683 Seton Crescent SE (Seton Gateway)	Calgary, AB	Q4	100%	62,100	11.0
14.	332 Bloor Street West (Bloor & Spadina)	Toronto, ON	Q4	100%	7,700	10.6
15.	4509 Kingston Road (Morningside Crossing)	Toronto, ON	Q4	100%	3,900	\$ 2.6
16.	816-838 11th Avenue SW (GM Glenbow)	Calgary, AB	Q4	50%	3,700	2.4
Total					213,400	\$ 175.2

<sup>(1)</sup> The acquisition of the hotel property was accounted for as a business combination under IFRS 3 "Business Combinations". Refer to Note 7 of the audited consolidated financial statements for further details. GLA represents retail space only.

### *Development Properties*

During the year ended December 31, 2018, First Capital acquired one adjacent land parcel, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	Acreage	Acquisition Cost (in millions)
<b><i>Development lands</i></b>						
1.	2194 Lake Shore Blvd. West (former Christie Cookie site)	Toronto, ON	Q1	50%	0.2	\$ 1.8
Total development lands					0.2	\$ 1.8

## 2019 Dispositions

During the year ended December 31, 2019, First Capital completed \$835.0 million in dispositions, primarily in non-super urban markets including its entire portfolio in Quebec City, Red Deer and Trois-Rivieres. In addition, FCR disposed of partial interests in residential density to strategic residential partners. These dispositions are summarized in the table below:

Count	Property Name	City/Province	Quarter Sold	Interest Sold	GLA (sq. ft.)	Acreage	Gross Sales Price (in millions)
1.	Westminster Centre	London, ON	Q1	100%	52,100	8.4	
2.	Carrefour du Plateau - Residential Land	Gatineau, QC	Q1	100%	—	4.9	
3.	Terry Fox Lands <sup>(1)</sup>	Kanata, ON	Q1	50%	—	13.5	
4.	Bow Valley Crossing - Land <sup>(1)</sup>	Calgary, AB	Q2	95%	—	46.0	
5.	Gloucester City Centre	Ottawa, ON	Q2	50%	184,300	14.3	
6.	Carrefour du Plateau	Gatineau, QC	Q2	50%	115,300	12.3	
7.	Merivale Mall	Ottawa, ON	Q2	50%	109,500	8.2	
8.	Galeries de Repentigny	Repentigny, QC	Q2	50%	65,400	6.3	
9.	Galeries Brien Ouest/Est	Repentigny, QC	Q2	50%	30,600	2.2	
10.	Centre Maxi Trois Rivieres	Trois-Rivieres, QC	Q2	100%	121,300	11.9	
11.	Atrium Du Sanctuaire	Montreal, QC	Q2	100%	36,500	4.7	
12.	Centre Commercial Wilderton - Phase 1 Residential Air Rights	Montreal, QC	Q2	100%	—	—	
13.	Nanaimo Portfolio	Nanaimo, BC	Q3	100%	149,800	10.9	
14.	Langford Portfolio	Victoria, BC	Q3	100%	141,500	8.6	
15.	Gateway Village	St. Albert, AB	Q3	50%	52,700	6.0	
16.	1100 King St. W. - Residential <sup>(2)</sup>	Toronto, ON	Q3	10%	—	—	
17.	St. Hubert/Ottawa/West Island Portfolios	Montreal, QC / Ottawa, ON	Q4	50%	515,400	47.5	
18.	Quebec City Portfolio	Quebec City, QC	Q4	100%	994,500	82.9	
19.	Red Deer Village	Red Deer, AB	Q4	100%	243,700	20.1	
20.	Halton Hills Village	Georgetown, ON	Q4	100%	111,700	12.2	
21.	McLaughlin Corners West <sup>(1)</sup>	Brampton, ON	Q4	50%	53,000	5.6	
22.	1100 King St. W. - Residential <sup>(2)</sup>	Toronto, ON	Q4	3%	—	—	
23.	756-760 Baseline Rd. E. (Land)	London, ON	Q4	100%	—	0.4	
	<b>Total</b>				<b>2,977,300</b>	<b>326.9</b>	<b>\$ 835.0</b>

<sup>(1)</sup> FCR disposed of its entire interest in these properties.

<sup>(2)</sup> FCR's former partner also sold their 20% interest in the residential component of the property to the same purchaser.



## 2018 Dispositions

During the year ended December 31, 2018, First Capital disposed of a 50.5% non-managing interest in a portfolio of six properties in London, Ontario as well as three land parcels, a partial interest in the Vancouver property planned for redevelopment and its interest in West Oaks Shopping Centre for \$132.0 million, 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.	Eagleson Cope Drive (land)	Ottawa, ON	Q1	100%	102,900	11.2	
2.	Wellington Corners	London, ON	Q1	50.5%	40,800	7.0	
3.	Sunningdale Village	London, ON	Q1	50.5%	36,600	6.0	
4.	Byron Village	London, ON	Q1	50.5%	44,000	6.0	
5.	Hyde Park Plaza	London, ON	Q1	50.5%	26,100	5.0	
6.	Stoneybrook Plaza	London, ON	Q1	50.5%	27,900	4.9	
7.	Adelaide Shoppers	London, ON	Q1	50.5%	9,700	1.7	
8.	130 Michael Cowpland Drive (land)	Ottawa, ON	Q1	100%	—	1.4	
9.	200 West Esplanade	Vancouver, BC	Q3	50%	19,200	0.2	
10.	West Oaks Shopping Centre	Abbotsford, BC	Q4	50%	132,500	9.3	
11.	1071 King Street W. (land)	Toronto, ON	Q4	33%	—	0.2	
Total					439,700	52.9	\$ 132.0

During the year ended December 31, 2018, First Capital also completed the sale of 19 properties that it owned through its investment in Main and Main Urban Realty, for approximately \$116.8 million at FCR's interest.

## 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, 2019 and 2018 is summarized in the table below:

For the year ended December 31	Acquired		Disposed	
	2019	2018	2019	2018
Central Region	\$ 8,140	\$ 4,672	\$ 3,648	\$ 3,656
Eastern Region	—	241	31,657	570
Western Region	484	2,947	11,463	2,722
Total	\$ 8,624	\$ 7,860	\$ 46,768	\$ 6,948

## Capital Expenditures

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

Revenue sustaining capital expenditures are required for maintaining First Capital's property 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 FCR's properties. 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 properties, such as roof replacements and resurfacing of parking lots.

Revenue enhancing capital expenditures are those expenditures that increase the revenue generating ability of FCR's properties. 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. First Capital owns and actively seeks to acquire older, well-located

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

properties in urban locations, where expenditures tend to be higher when they are subsequently repaired or redeveloped to meet FCR's standards.

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	2019			2018
	Total Same Property	Other Property Categories	Total	Total
Revenue sustaining	\$ 17,328	\$ —	\$ 17,328	\$ 15,523
Revenue enhancing	18,958	20,189	39,147	32,476
Expenditures recoverable from tenants	3,962	2,853	6,815	7,945
Development expenditures	17,493	148,321	165,814	214,314
Total	\$ 57,741	\$ 171,363	\$ 229,104	\$ 270,258

During the year ended December 31, 2019, capital expenditures totaled \$229.1 million compared to \$270.3 million for the prior year. The \$41.2 million decrease was primarily due to lower development spend of \$48.5 million related to the Yorkville Village and Mount Royal West projects that were completed in 2018, partially offset by higher spend on revenue enhancing expenditures.

### Valuation of Investment Properties

The approach selected for valuing investment properties depends on the type of property and other factors such as stage of development. The components of First Capital's investment properties for the purposes of calculating fair values were as follows as at December 31, 2019 and December 31, 2018:

As at (millions of dollars)		December 31, 2019	December 31, 2018
Property Type <sup>(1)</sup>	Valuation Method	Fair Value	Fair Value
Same Properties	Discounted cash flow ("DCF")	\$ 6,627	\$ 6,553
Properties under development / in transition	Cost or DCF less costs to complete	2,372	2,051
Investment properties recently acquired or held for sale <sup>(2)</sup>	Purchase price or DCF	661	1,086
Development land	Cost or comparable land sales	92	78
Total investment property fair value		\$ 9,752	\$ 9,768

<sup>(1)</sup> Prior periods restated to reflect current period property categories.

<sup>(2)</sup> Comparative fair value includes properties that were disposed of in 2019.

During the year ended December 31, 2019, the weighted average stabilized capitalization rate used in valuing those investment properties under the DCF method decreased from 5.3% as at December 31, 2018 to 5.0%, primarily due to the impact of dispositions during the year. The net increase in the fair value of investment properties of \$61.0 million was primarily due to entitlements being obtained on a downtown Toronto property, increased land value on a Montreal redevelopment property and stabilized NOI growth across the portfolio for the year ended December 31, 2019.

The associated stabilized capitalization rates by region for FCR's investment properties valued under the discounted cash flow method were as follows as at December 31, 2019 and December 31, 2018:

As at December 31, 2019	Stabilized Capitalization Rate		
	Weighted Average	Median	Range
Central Region	4.7%	5.3%	3.0%-7.0%
Eastern Region	5.8%	6.0%	4.4%-7.5%
Western Region	5.1%	5.3%	3.8%-6.3%
Weighted Average	5.0%	5.5%	3.0%-7.5%

As at December 31, 2018	Stabilized Capitalization Rate		
	Weighted Average	Median	Range
Central Region	5.0%	5.3%	3.0%-7.0%
Eastern Region	5.9%	6.0%	4.4%-7.8%
Western Region	5.2%	5.3%	3.8%-6.3%
Weighted Average	5.3%	5.5%	3.0%-7.8%

## Properties Under Development

Development and redevelopment activities are completed selectively, based on opportunities in First Capital's properties or in the markets where FCR operates. First Capital'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 commercial development activities are strategically managed to reduce risk, and properties are generally developed after obtaining anchor tenant lease commitments. Individual commercial buildings within a development are generally constructed only after obtaining lease commitments on a substantial portion of the space.

### Development Pipeline

As at December 31, 2019, First Capital's portfolio is comprised of 20.9 million square feet of GLA at FCR'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, 2019, Management had identified approximately 25.0 million square feet of incremental density. This incremental density represents an opportunity that exceeds FCR's existing portfolio.

Management undertakes a quarterly review of its entire portfolio and updates all of its future incremental density. Management stratifies the density by 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. First Capital'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 First Capital with increased opportunity to redevelop its generally low density properties.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

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

As at December 31, 2019	Square feet (in thousands)		
	Commercial	Residential	Total
<b>Active Development</b>			
Same Property with redevelopment	12	—	12
Major redevelopment	173	—	173
Ground-up development	73	378	451
	<b>258</b>	<b>378</b>	<b>636</b>
<b>Future incremental density</b>			
Medium term	1,800	11,500	13,300
Long term	100	6,700	6,800
Very long term	100	4,200	4,300
	<b>2,000</b>	<b>22,400</b>	<b>24,400</b>
<b>Total development pipeline</b>	<b>2,258</b>	<b>22,778</b>	<b>25,036</b>

First Capital determines its course of action with respect to the 22.4 million square feet of potential residential density on a case by case basis given the specifics of each property. First Capital'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. Approximately 7.1 million of FCR's 25.0 million square feet of identified incremental density has been included as part of the fair value of investment properties on the consolidated balance sheet. The 7.1 million square feet is comprised of 0.6 million square feet in active development which is valued as part of the overall property and 6.5 million of incremental density carried at approximately \$506 million. The value of the incremental density included as part of FCR's fair value of investment properties increased \$349 million over prior year primarily due to acquisitions of development properties with incremental density potential as well as entitlements received on a downtown Toronto property. The remaining 17.9 million square feet of identified incremental density is expected to be included in the value of the property in the future, based on certain factors including the expiry or removal of tenant encumbrances and zoning approvals. The majority of the incremental residential density is located above income producing shopping centres or their parking areas.

### **Development Pipeline by Urban Market**

A breakdown of FCR's active development and incremental density by urban market is as follows:

As at December 31, 2019 (in thousands of square feet)	Incremental Density Pipeline	
	Total	% of Total
Greater Toronto Area	13,203	52.7%
Greater Montreal Area	6,548	26.2%
Greater Vancouver Area	2,814	11.2%
Greater Calgary Area	1,301	5.2%
Greater Ottawa Area	780	3.1%
Greater Edmonton Area	390	1.6%
<b>Total development pipeline</b>	<b>25,036</b>	<b>100.0%</b>



## Entitlements Program

First Capital has a program in place to seek entitlements for the incremental density within its portfolio. Entitlement applications are submitted based on gross floor area (“GFA”). Prior to 2019, FCR submitted entitlement applications for GFA of approximately 3.7 million square feet (incremental density of 3.5 million square feet) as outlined in the table below. The majority of this density had been zoned by December 31, 2019 and the IFRS value for these properties reflects this density.

Pre - 2019 Entitlement Applications				'000s of square feet submitted/zoned for (at FCR's share):				
Property	Neighbourhood	City, Province	Ownership Interest %	Residential	Commercial	Total	Existing	Incremental
1. Panama (All Phases)	Panama Ave. / Taschereau Blvd.	Montreal, QC	100%	1,555	403	1,958	—	1,958
2. Humbertown (All Phases)	The Kingsway	Toronto, ON	100%	551	235	786	105	681
3. Appleby Village <sup>(1)</sup>	Appleby	Burlington, ON	100%	348	7	355	—	355
4. 400 King St. W.	Entertainment District	Toronto, ON	35%	147	13	160	—	160
5. Wilderton Phase II	Outremont	Montreal, QC	100%	173	22	195	42	153
6. Longstreet Phase I	Adjacent to ICE District	Edmonton, AB	100%	120	23	143	7	136
7. Rutherford Marketplace <sup>(1)</sup>	Thornhill Woods	Vaughan, ON	50%	64	—	64	—	64
8. 200 West Esplanade	Lower Lonsdale	North Vancouver, BC	50%	28	4	32	21	11
<b>Totals</b>				<b>2,986</b>	<b>707</b>	<b>3,693</b>	<b>175</b>	<b>3,518</b>

<sup>(1)</sup> Residential phases only.

During 2019, FCR submitted entitlement applications for GFA of approximately 9.0 million square feet (incremental density of 8.5 million square feet) as outlined in the table below, surpassing its goal of 7.5 million square feet of entitlement submissions in 2019. The current IFRS value of these properties in aggregate is approximately \$571 million. Based on current market conditions, FCR expects to recognize a meaningful increase to the current IFRS values once approvals for these submissions are received.

2019 Entitlement Applications				'000s of square feet submitted for (at FCR's share):				
Property	Neighbourhood	City, Province	Ownership Interest %	Residential	Commercial	Total	Existing	Incremental
1. Christie Cookie <sup>(1)</sup>	Humber Bay Shores	Toronto, ON	50%	2,948	576	3,524	—	3,524
2. Dufferin Corners	Bathurst Manor	Toronto, ON	100%	990	37	1,027	81	946
3. Royal Orchard	Thornhill	Markham, ON	50%	697	22	719	22	697
4. Semiahmoo Phase I	South Surrey	Surrey, BC	100%	490	32	522	20	502
5. 801 York Mills & 1855 Leslie Street	Leslie & York Mills	Toronto, ON	100%	535	22	557	62	495
6. Staples Lougheed	Brentwood	Burnaby, BC	100%	475	49	524	32	492
7. Centre Commercial Cote St-Luc	Cote Saint-Luc	Montreal, QC	100%	559	80	639	158	481
8. Yonge & Roselawn	Yonge & Eglinton	Toronto, ON	85%	453	55	508	57	451
9. Olde Oakville Phase I	South Oakville	Oakville, ON	100%	217	44	261	28	233
10. Plaza Baie D'Urfe <sup>(2)</sup>	Hwy. 20 / Morgan St.	Montreal, QC	100%	218	9	227	42	185
11. Gloucester Phase I	Gloucester	Ottawa, ON	50%	157	17	174	3	171
12. Merivale Mall (Residential Phase)	Nepean	Ottawa, ON	50%	135	9	144	1	143
13. 1071 King St. W.	Liberty Village	Toronto, ON	67%	132	4	136	—	136
<b>Totals</b>				<b>8,006</b>	<b>956</b>	<b>8,962</b>	<b>506</b>	<b>8,456</b>

<sup>(1)</sup> Approximately 300,000 square feet is currently reflected in the property's IFRS value which is based on current zoning in place. The property's IFRS value approximates its cost.

<sup>(2)</sup> Square feet submitted represents square footage for a partial redevelopment.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

During 2020, FCR plans to submit entitlement applications for GFA of approximately 4.3 million square feet (incremental density of 4.0 million square feet) for the properties outlined below. This would bring the total entitlement submissions to approximately 16.0 million square feet of incremental density representing 64% of FCR's 25.0 million square feet of incremental density pipeline. The current IFRS value of these properties in aggregate is approximately \$432 million. Based on current market conditions, FCR expects to recognize a meaningful increase to the current IFRS values once approvals for these submissions are received.

### 2020 Planned Entitlement Applications

Property	Neighbourhood	City, Province	Ownership Interest %
1. 140 Yorkville	Bloor - Yorkville	Toronto, ON	33%
2. 101 Yorkville	Bloor - Yorkville	Toronto, ON	50%
3. Liberty Village (portion of shopping centre)	Liberty Village	Toronto, ON	100%
4. Avenue Rd. & Lawrence	Bedford Park	Toronto, ON	100%
5. 5500 Dundas	Islington - City Centre West	Toronto, ON	100%
6. 221 - 227 Sterling Rd.	The Junction	Toronto, ON	35%
7. Cliffcrest Plaza	Cliffcrest	Toronto, ON	100%
8. Midland Lawrence Plaza	Midland Park	Toronto, ON	100%
9. Hillcrest Plaza	Yonge & Sheppard	Toronto, ON	100%
10. 895 Lawrence	Don Mills	Toronto, ON	100%
11. Portobello (excess land)	Hwy. 10 / Taschereau Blvd.	Montreal, QC	100%
12. Place Viau (excess land)	Saint - Leonard	Montreal, QC	100%

In addition to the properties listed in the entitlements section above, First Capital has 9.0 million square feet of additional incremental density which includes 8.4 million square feet primarily related to the properties listed below, where entitlements have yet to be submitted, and 0.6 million feet currently under active development (see active projects table).

<b>Additional Incremental Density</b>			
Property	Neighbourhood	City, Province	Ownership Interest %
1. 332 Bloor St. W.	The Annex	Toronto, ON	100%
2. Cedarbrae Mall	Lawrence Ave. E. / Markham Rd.	Toronto, ON	100%
3. Danforth Sobeys	Danforth Village	Toronto, ON	100%
4. Olde Oakville (future phases)	South Oakville	Oakville, ON	100%
5. Lakeshore & Kerr	Kerr Village	Oakville, ON	100%
6. Bayview Lane Plaza	Thornhill	Markham, ON	100%
7. Yonge-Davis Centre	Yonge St./Davis Dr. W.	Newmarket, ON	100%
8. Appleby Square	Appleby	Burlington, ON	100%
9. Harwood Plaza	Harwood Ave. S. / Bayly St. W.	Ajax, ON	100%
10. 1000 Wellington St.	Griffintown	Montreal, QC	100%
11. Centre Commercial Domaine	Longue-Pointe	Montreal, QC	100%
12. Centre Commercial Van Horne	Cote-Des-Neiges	Montreal, QC	100%
13. Galeries Normandie	Hwy. 15/Rue de Salaberry	Montreal, QC	100%
14. Place Provencher	Saint - Leonard	Montreal, QC	100%
15. Le Campanile & Place du Commerce	Nun's Island	Montreal, QC	100%
16. Place Michelet	Saint - Leonard	Montreal, QC	100%
17. Langley Mall	Downtown Langley	Langley, BC	100%
18. Scott 72 Shopping Centre	120 St./72 Ave.	Delta, BC	100%
19. Semiahmoo (future phases)	South Surrey	Surrey, BC	100%
20. GM Glenbow	Beltline	Calgary, AB	50%
21. Newport Village	Macleod Trail SE/Southland Dr. SE	Calgary, AB	100%
22. Mount Royal Village East	Beltline	Calgary, AB	100%
23. Gloucester City Centre (future phases)	Gloucester	Ottawa, ON	50%

FCR continues to review each of its properties and has identified meaningful incremental density in properties that have not progressed to the point of inclusion in First Capital's incremental density pipeline, that we expect may be included in the future. A sample of such properties include Macleod Plaza, Meadowvale Town Centre, Old Strathcona Shopping Centre, Pemberton Plaza and future phases of Longstreet Shopping Centre, among others.

### ***Invested Cost of Properties Under Development***

As at December 31, 2019, First Capital had \$708.0 million of properties under development and development land parcels at invested cost, representing approximately 7.3% of the value of the total investment property portfolio.

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

As at December 31, 2019	Number of Active Projects	Square Feet <sup>(1)(2)</sup> (in thousands)	Invested Cost (in millions)		
			Active Development	Pre-Development	Total
<b>Total development and redevelopment activities</b>	<b>10</b>	<b>636</b>	<b>\$ 235</b>	<b>\$ 81</b>	<b>\$ 316</b>
Total development land, adjacent land parcels, and other <sup>(3)</sup>				\$ 392	\$ 392
<b>Total</b>			<b>\$</b>	<b>\$ 473</b>	<b>\$ 708</b>

<sup>(1)</sup> Includes 378,000 square feet of residential rental apartments.

<sup>(2)</sup> Square footage relates to active development only.

<sup>(3)</sup> Includes all other property categories.

### ***2019 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. Costs transferred to income-producing properties often involves judgment in cost allocations related to the space transferred in the period relative to the total project. Therefore, the cost per square foot transferred in any one period may not be indicative of the total project cost per square foot.

During the year ended December 31, 2019, First Capital completed the transfer of 201,000 square feet of new retail space in addition to 247 residential units to the income-producing portfolio at a total cost of \$282.0 million. Of the urban retail space transferred, primarily in super urban neighbourhoods, 196,000 square feet became occupied at an average rental rate of \$35.89 per square foot, well above the average rate for the portfolio of \$21.25.

For the year ended December 31, 2019, First Capital had tenant closures for redevelopment of 218,000 square feet at an average rental rate of \$10.51 per square foot. As of December 31, 2019 the 218,000 square feet was either demolished or slated for demolition.

### ***Active Development and Redevelopment Activities***

First Capital'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 costs, land cost incremental to the development, 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 or lower than currently forecasted costs, if final lease terms are higher or lower than forecasted base rent recoveries, or if there are other unforeseen events that cause actual results to differ from assumptions. The quality of First Capital's construction is consistent with its strategy of long-term ownership and value creation, and factors in FCR's high standards in construction, materials, architecture, lighting, parking, access, pedestrian amenities, accessibility, as well as development to Leadership in Energy and Environmental Design ("LEED") standards.

### ***Committed Leases***

First Capital has ten projects comprised of approximately 636,000 square feet of space currently under development, of which 258,000 square feet is retail space and 378,000 square feet is residential rental apartments. A total of 143,000 square feet of the retail space currently under development is subject to committed leases at a weighted average rate of \$31.53 per square foot. As construction on large projects occurs in phases, there continues to be ongoing negotiations in various stages with retailers for the planned space. Leasing of residential apartments begins as the project is nearing completion.



Highlights of First Capital's active projects as at December 31, 2019 are as follows:

Count/Project		Major Tenants	Ownership Interest %	Square Feet Under Development (in thousands)	Target Completion Date <sup>(1)</sup>	Invested Cost (in millions)		
						Total Estimated (incl. Land)	Under Development	Income-producing property
1.	Semiahmoo Shopping Centre, Surrey, BC	(Crunch Fitness, Winners, Rothewood Academy)	100.0%	6	H1 2020	\$125 - \$140	\$5	\$119
2.	Chartwell Shopping Centre, Toronto, ON	(Mabu Station)	100.0%	5	H1 2020	\$5.0 - \$6.0	\$3	N/A
3.	Westmount Shopping Centre, Edmonton, AB	(Church's Chicken)	100.0%	5	H1 2020	\$3.5 - \$4.0	\$2	N/A
4.	Victoria Terrace, Toronto, ON	(Starbucks, Sunset Grill)	100.0%	2	H1 2020	\$2.5 - \$3.0	\$1	N/A
5.	King High Line (Shops at King Liberty), Toronto, ON <sup>(2)(3)</sup>	(Longo's, Canadian Tire, Shoppers Drug Mart, Winners, Kids & Company, WeWork, McDonald's)	100%/67%	110	H2 2020	\$350 - \$390	\$86	\$239
6.	3080 Yonge Street, Toronto, ON	(Loblaws, Tim Hortons, Anatomy Fitness)	100.0%	16	H2 2020	\$135 - \$150	\$18	\$116
7.	The Brewery District, Edmonton, AB <sup>(4)</sup>	(MEC, Loblaws City Market, GoodLife Fitness, Winners)	50.0%	26	H2 2020	\$100 - \$110	\$16	\$83
8.	Dundas & Aukland, Toronto, ON <sup>(5)</sup>	(Farm Boy)	100.0%	315	H1 2021	\$150 - \$170	\$71	—
9.	19 & 25 Industrial Street (Leaside Village), Toronto, ON	(Pharmacy, Pet Store, Medical Office, Restaurant)	100.0%	72	H1 2021	\$45 - \$50	\$21	—
10.	Wilderton, Montreal, QC <sup>(6)</sup>	(Metro, Pharmaprix, Tim Hortons, SAQ)	100.0%	79	H2 2022	\$57 - \$62	\$12	\$13
<b>Total development and redevelopment activities</b>				<b>636</b>		<b>\$973 - \$1,085</b>	<b>\$235</b>	<b>\$570</b>

<sup>(1)</sup> H1 and H2 refer to the first six months of the year and the last six months of the year, respectively.

<sup>(2)</sup> FCR's ownership interest in the retail and residential components are 100% and 67%, respectively.

<sup>(3)</sup> The square feet under development is comprised of 110,000 square feet of residential space (67% at FCR's interest).

<sup>(4)</sup> Target completion date relates to buildings currently under construction.

<sup>(5)</sup> Subject to non-controlling interest of 29.12%. The area under development comprises 47,000 square feet of retail and 268,000 square feet of residential.

<sup>(6)</sup> Target completion date reflects future phases.

### Costs to Complete Active and Redevelopment Activities

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately \$194.8 million.

### Residential Inventory

First Capital has commenced a residential development project to build and sell fifty townhomes on land adjacent to FCR's Rutherford Marketplace property. The development is being managed by FCR's 50% residential partner, who purchased 50% of the land in the fourth quarter of 2016. Total invested cost in the project at FCR's share is approximately \$10.2 million at December 31, 2019. Total invested cost at completion is estimated to be \$22.5 million with a target completion date in the first half of 2021. To date, 32 of the 50 townhomes have been sold and construction is slated to begin in Q2 2020.

## Leasing and Occupancy

As at December 31, 2019, total portfolio occupancy increased 0.2% to 96.9% while Same Property portfolio occupancy was up 0.1% compared to September 30, 2019. The increase was primarily due to the impact of dispositions in the quarter. Total portfolio occupancy increased 0.2% to 96.9% while Same Property portfolio occupancy was up 0.1% compared to December 31, 2018.

For the year ended December 31, 2019, the monthly average occupancy for the total portfolio was 96.6% compared to 96.3%, and the Same Property portfolio occupancy was 97.3% compared to 97.2% for the prior year, respectively.

Occupancy of First Capital's portfolio by property categorization was as follows

As at	December 31, 2019			December 31, 2018		
<i>(square feet in thousands)</i>	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	14,091	97.6%	\$ 21.06	14,070	97.4%	\$ 20.81
Same Property with redevelopment	2,220	96.6%	17.78	2,225	97.8%	17.46
Total Same Property	16,311	97.5%	20.61	16,295	97.4%	20.35
Major redevelopment	2,692	94.4%	25.87	2,804	94.6%	24.53
Ground-up development	277	99.2%	32.36	145	98.8%	29.93
Investment properties classified as held for sale	777	93.0%	13.57	773	92.5%	13.26
Total portfolio before acquisitions and dispositions	20,057	96.9%	21.21	20,017	96.8%	20.73
Acquisitions	215	94.7%	24.99	190	93.9%	24.91
Dispositions	—	—%	—	2,857	96.0%	16.47
Total <sup>(1)</sup>	20,272	96.9%	\$ 21.25	23,064	96.7%	\$ 20.24

<sup>(1)</sup> At FCR's ownership interest, excluding MMUR.

During the three months ended December 31, 2019, First Capital completed 706,000 square feet of lease renewals across the portfolio. First Capital achieved a 10.1% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. For the three months ended December 31, 2019, First Capital achieved a 11.6% lease renewal rate increase when comparing the net rental rate in the last year of the expiring term to the *average* net rental rate over the renewal term.

The average rental rate per occupied square foot for the total portfolio increased 2.9% from \$20.65 as at September 30, 2019 to \$21.25 as at December 31, 2019 primarily due to dispositions, renewal lifts and rent escalations.

Changes in First Capital's gross leasable area and occupancy for the total portfolio for the three months ended December 31, 2019 are set out below:

Three months ended December 31, 2019	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio <sup>(1)</sup>		
	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
<b>September 30, 2019 <sup>(2)</sup></b>	<b>16,298</b>	<b>97.4%</b>	<b>\$ 20.52</b>	<b>5,873</b>	<b>94.7%</b>	<b>\$ 20.98</b>	<b>8</b>	<b>—%</b>	<b>757</b>	<b>3.3%</b>	<b>22,936</b>	<b>96.7%</b>	<b>\$ 20.65</b>
Tenant possession	127		21.68	48		21.94	—		(175)		—		21.76
Tenant closures	(118)		(20.59)	(31)		(22.46)	—		149		—		(20.98)
Tenant closures for redevelopment	—		—	(118)		(8.06)	118		—		—		(8.06)
Developments – tenants coming online <sup>(3)</sup>	5		30.43	16		89.44	—		2		23		76.10
Redevelopments – tenant possession	—		—	—		—	—		—		—		—
Demolitions	—		—	—		—	(110)		—		(110)		—
Reclassification	(1)		—	3		—	(3)		(2)		(3)		—
Total portfolio before Q4 2019 acquisitions and dispositions	16,311	97.5%	\$ 20.61	5,791	94.8%	\$ 21.37	13	0.1%	731	3.2%	22,846	96.7%	\$ 20.81
Acquisitions (at date of acquisition)	—	—%	—	—	—%	—	—	—%	—		—	—%	—
Dispositions (at date of disposition)	—	—%	—	(1,830)	95.4%	15.97	—	—%	(89)		(1,919)	95.4%	15.97
<b>December 31, 2019</b>	<b>16,311</b>	<b>97.5%</b>	<b>\$ 20.61</b>	<b>3,961</b>	<b>94.5%</b>	<b>\$ 23.86</b>	<b>13</b>	<b>0.1%</b>	<b>642</b>	<b>3.1%</b>	<b>20,927</b>	<b>96.9%</b>	<b>\$ 21.25</b>
Renewals	571		\$ 22.13	135		\$ 19.52					706		\$ 21.63
Renewals – expired	(571)		\$ (19.96)	(135)		\$ (18.27)					(706)		\$ (19.64)
Net change per square foot from renewals			\$ 2.17			\$ 1.25							\$ 1.99
% Increase on renewal of expiring rents (first year of renewal term)			10.9%			6.8%							10.1%
% increase on renewal of expiring rents (average rate in renewal term)													11.6%

<sup>(1)</sup> At FCR's ownership interest, excluding MMUR.

<sup>(2)</sup> Opening balances have been adjusted to reflect the current period presentation.

<sup>(3)</sup> For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2019 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – continued**

During the year ended December 31, 2019, First Capital completed 2,454,000 square feet of lease renewals across the portfolio. First Capital achieved a 10.7% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. For the year ended December 31, 2019, First Capital achieved a 12.4% lease renewal rate increase when comparing the net rental rate in the last year of the expiring term to the *average* net rental rate over the renewal term.

The average rental rate per occupied square foot for the total portfolio increased 5.0% from \$20.24 as at December 31, 2018 to \$21.25 as at December 31, 2019 primarily due to dispositions, renewal lifts and rent escalations.

Changes in First Capital's gross leasable area and occupancy for the total portfolio for the year ended December 31, 2019 are set out below:

Year ended December 31, 2019	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions		Vacancy				Total Portfolio <sup>(1)</sup>			
	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
<b>December 31, 2018 <sup>(2)</sup></b>	<b>16,295</b>	<b>97.4%</b>	<b>\$ 20.35</b>	<b>6,769</b>	<b>95.0%</b>	<b>\$ 19.97</b>	<b>34</b>	<b>0.1%</b>	<b>756</b>	<b>3.2%</b>	<b>23,854</b>	<b>96.7%</b>	<b>\$ 20.24</b>
Tenant possession	522		17.21	197		20.40	—		(719)		—		18.09
Tenant closures	(528)		(17.97)	(211)		(28.68)	—		739		—		(21.02)
Tenant closures for redevelopment	(3)		(25.00)	(215)		(10.34)	218		—		—		(10.51)
Developments – tenants coming online <sup>(3)</sup>	21		31.16	175		36.47	—		5		201		35.89
Redevelopments – tenant possession	—		—	2		5.92	(2)		—		—		5.92
Demolitions	—		—	—		—	(233)		—		(233)		—
Reclassification	4		—	12		—	(4)		(18)		(6)		—
Total portfolio before 2019 acquisitions and dispositions	16,311	97.5%	\$ 20.61	6,729	95.0%	\$ 20.68	13	0.1%	763	3.2%	23,816	96.7%	\$ 20.62
Acquisitions (at date of acquisition)	—	—%	—	88	100.0%	32.06	—	—%	—		88	100.0%	32.06
Dispositions (at date of disposition)	—	—%	—	(2,856)	95.9%	16.61	—	—%	(121)		(2,977)	95.9%	16.54
<b>December 31, 2019</b>	<b>16,311</b>	<b>97.5%</b>	<b>\$ 20.61</b>	<b>3,961</b>	<b>94.5%</b>	<b>\$ 23.86</b>	<b>13</b>	<b>0.1%</b>	<b>642</b>	<b>3.1%</b>	<b>20,927</b>	<b>96.9%</b>	<b>\$ 21.25</b>
Renewals	2,005		\$ 21.14	449		\$ 21.33					2,454		\$ 21.17
Renewals – expired	(2,005)		\$ (18.99)	(449)		\$ (19.70)					(2,454)		\$ (19.12)
Net change per square foot from renewals			\$ 2.15			\$ 1.63							\$ 2.05
% Increase on renewal of expiring rents (first year of renewal term)			11.3%			8.3%							10.7%
% increase on renewal of expiring rents (average rate in renewal term)													12.4%
% Increase in rate per square foot – openings versus all closures			(4.4%)			4.3%							(3.1%)

<sup>(1)</sup> At FCR's ownership interest, excluding MMUR.

<sup>(2)</sup> Opening balances have been adjusted to reflect the current period presentation.

<sup>(3)</sup> For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2019 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.



## Top Forty Tenants

As at December 31, 2019, 54.6% of First Capital's annualized minimum rent came from its top 40 tenants (December 31, 2018 – 55.1%). Of these rents, 76.9% (December 31, 2018 – 67.7%) 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 retailers. The weighted average remaining lease term for First Capital's top 10 tenants was 5.5 years as at December 31, 2019, excluding contractual renewal options.

Rank	Tenant <sup>(1)(2)</sup>	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")	97	2,016	9.6%	10.2%	BBB	BBB	
2.	Sobeys	51	1,610	7.7%	5.8%	BBB (low)	BB+	
3.	Metro	37	945	4.5%	3.0%	BBB	BBB	
4.	Canadian Tire	23	759	3.6%	2.7%	BBB (high)	BBB+	
5.	Walmart	13	1,246	6.0%	2.5%	AA	AA	Aa2
6.	TD Canada Trust	45	205	1.0%	2.0%	AA (high)	AA-	Aa1
7.	RBC Royal Bank	43	218	1.0%	1.9%	AA (high)	AA-	Aa2
8.	GoodLife Fitness	26	518	2.5%	1.8%			
9.	Dollarama	50	453	2.2%	1.7%	BBB		
10.	Save-On-Foods	9	324	1.5%	1.7%			
<b>Top 10 Tenants Total</b>		<b>394</b>	<b>8,294</b>	<b>39.6%</b>	<b>33.3%</b>			
11.	CIBC	36	179	0.9%	1.4%	AA	A+	Aa2
12.	LCBO	23	202	1.0%	1.3%	AA (low)	A+	Aa3
13.	Lowe's	4	361	1.7%	1.3%	BBB (high)	BBB+	Baa1
14.	McKesson	24	191	0.9%	1.2%		BBB+	Baa2
15.	Scotiabank	26	131	0.6%	1.1%	AA	A+	Aa2
16.	Restaurant Brands International	57	134	0.6%	1.1%		BB	Ba3
17.	Longo's	5	196	0.9%	1.1%			
18.	BMO	26	105	0.5%	1.0%	AA	A+	Aa2
19.	London Drugs	8	192	0.9%	1.0%			
20.	Winners	12	271	1.3%	0.9%		A+	A2
21.	Nordstrom	1	40	0.2%	0.8%	BBB (high)	BBB	Baa2
22.	Recipe Unlimited	30	117	0.6%	0.8%			
23.	Staples	9	194	0.9%	0.8%		B+	B1
24.	Starbucks	41	57	0.3%	0.7%		BBB+	Baa1
25.	Michaels	4	77	0.4%	0.6%		B+	Ba2
26.	Whole Foods Market	2	90	0.4%	0.5%		A+	A3
27.	Subway	65	67	0.3%	0.5%			
28.	Pusateri's	1	35	0.2%	0.5%			
29.	The Beer Store	12	66	0.3%	0.5%	AA (low)	A+	Aa3
30.	McDonald's	20	68	0.3%	0.5%		BBB+	Baa1
31.	Toys "R" Us	3	127	0.6%	0.5%			
32.	Yum! Brands	28	45	0.2%	0.4%		BB	Ba2
33.	The Home Depot	2	153	0.7%	0.4%	A	A	A2
34.	SAQ	17	64	0.3%	0.4%	AA (low)	AA-	Aa2
35.	Williams-Sonoma	2	38	0.2%	0.4%			
36.	Petsmart	4	57	0.3%	0.4%		B-	B3
37.	Pet Valu	20	55	0.3%	0.3%			
38.	Equinox	2	38	0.2%	0.3%		B-	B2
39.	Bulk Barn	12	56	0.3%	0.3%			
40.	Hudson's Bay Company	2	73	0.3%	0.3%			
<b>Top 40 Tenants Total</b>		<b>892</b>	<b>11,773</b>	<b>56.2%</b>	<b>54.6%</b>			

<sup>(1)</sup> The names noted above may be the names of the parent entities and are not necessarily the covenants under the leases.

<sup>(2)</sup> Tenants noted include all banners of the respective retailer.

## Lease Maturity Profile

First Capital's lease maturity profile for its portfolio as at December 31, 2019, 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 <sup>(1)</sup>	156	226	1.1%	\$ 5,128	1.1%	\$ 22.65
2020	539	1,875	9.0%	36,556	7.8%	19.50
2021	543	2,098	10.0%	42,974	9.2%	20.49
2022	626	2,785	13.3%	63,611	13.6%	22.84
2023	605	3,124	14.9%	62,351	13.4%	19.96
2024	548	2,450	11.7%	53,572	11.5%	21.87
2025	343	1,622	7.7%	40,695	8.7%	25.09
2026	165	839	4.0%	23,298	5.0%	27.78
2027	166	1,038	5.0%	24,728	5.3%	23.83
2028	163	1,022	4.9%	29,090	6.2%	28.48
2029	178	964	4.6%	25,475	5.5%	26.42
2030	92	443	2.1%	13,544	2.9%	30.59
Thereafter	82	1,786	8.6%	45,460	9.8%	25.42
<b>Total or Weighted Average <sup>(2)</sup></b>	<b>4,206</b>	<b>20,272</b>	<b>96.9%</b>	<b>\$ 466,482</b>	<b>100.0%</b>	<b>\$ 23.01</b>

<sup>(1)</sup> Includes tenants on over hold including renewals and extensions under negotiation, month-to-month tenants and tenants in space at properties with future redevelopment.

<sup>(2)</sup> At FCR's ownership interest, excluding MMUR.

The weighted average remaining lease term for the portfolio was 5.4 years as at December 31, 2019, excluding contractual renewal options, but including month-to-month and other short-term leases.

## Investment in Joint Ventures

As at December 31, 2019, First Capital had interests in six joint ventures that it accounts for using the equity method. First Capital's joint ventures are as follows:

Name of Entity	Name of Property/Business Activity	Location	Effective Ownership	
			December 31, 2019	December 31, 2018
M+M Urban Realty LP ("MMUR") <sup>(1)</sup>	Commercial/residential properties <sup>(2)</sup>	Toronto, ON	N/A	53.1%
College Square General Partnership	College Square	Ottawa, ON	50.0%	50.0%
Green Capital Limited Partnership	Royal Orchard	Markham, ON	50.0%	50.0%
Stackt Properties LP	Shipping Container marketplace	Toronto, ON	94.0%	94.0%
Fashion Media Group GP Ltd.	Toronto Fashion Week events	Toronto, ON	78.0%	72.0%
FC Access LP	Whitby Mall (self storage operation)	Whitby, ON	25.0%	N/A
Edenbridge Kingsway (Humbertown)	Humbertown Condos (Phase 1)	Toronto, ON	50.0%	N/A

<sup>(1)</sup> MMUR was an equity accounted joint venture between the Trust, Main and Main Developments LP and an institutional investor. On July 22, 2019 FCR and its partner acquired the remaining 46.9% interest in MMUR from the institutional investor.

<sup>(2)</sup> As at December 31, 2019 and December 31, 2018, MMUR owned 4 properties.

First Capital has determined that these investments are joint ventures as all decisions regarding their activities are made unanimously between First Capital and its partners.

During the third quarter, First Capital, together with its partner in Main and Main Developments LP acquired the remaining 46.9% interest in four remaining MMUR assets for approximately \$116.0 million. As a result, FCR now controls MMUR

through its direct and indirect interests, requiring the consolidation of the assets, liabilities, revenues and expenses of MMUR from the date of acquisition.

The following table reconciles the changes in First Capital's interests in its equity accounted joint ventures:

	Year ended December 31, 2019	
Balance at beginning of year	\$	144,375
Contributions to equity accounted joint ventures		17,481
Distributions from equity accounted joint ventures		(25,648)
Consolidation of equity accounted joint venture (MMUR)		(78,409)
Share of income from equity accounted joint ventures		1,699
Balance at end of year	\$	59,498

### Loans, Mortgages and Other Assets

As at	December 31, 2019	December 31, 2018
<b>Non-current</b>		
Loans and mortgages receivable classified as FVTPL (a)	\$ 20,726	\$ 20,511
Loans and mortgages receivable classified as amortized cost (a)(b)	58,940	57,003
Other investments	16,302	15,834
Total non-current	\$ 95,968	\$ 93,348
<b>Current</b>		
Loans and mortgages receivable classified as FVTPL (a)	\$ 132	\$ 87,106
Loans and mortgages receivable classified as amortized cost (a)(b)	65,984	160,043
FVTPL investments in securities (c)	3,949	23,562
Total current	\$ 70,065	\$ 270,711
Total	\$ 166,033	\$ 364,059

- (a) Loans and mortgages receivable are primarily secured by interests in investment properties or shares of entities owning investment properties. As at December 31, 2019, these receivables bear interest at weighted average effective interest rates of 6.6% (December 31, 2018 – 9.7%) and mature between 2020 and 2028.
- (b) During the third quarter, approximately \$131.3 million of mortgages receivable were fully repaid related to First Capital's priority ranking mortgages on a development project at the southwest corner of Yonge Street and Bloor Street in Toronto, Ontario.
- (c) From time to time, First Capital invests 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

### Net Operating Income

First Capital's net operating income for its portfolio is presented below:

	Three months ended December 31			Year ended December 31		
	% change	2019	2018	% change	2019	2018
Property rental revenue						
Base rent		\$ 112,513	\$ 115,156		\$ 457,200	\$ 452,445
Operating cost recoveries		26,806	27,571		110,284	107,604
Realty tax recoveries		32,042	33,547		137,388	137,909
Lease surrender fees		168	51		5,265	1,983
Percentage rent		1,980	1,331		4,798	4,351
Straight-line rent adjustment		1,849	1,323		5,824	7,062
Prior year operating cost and tax recovery adjustments		(475)	(553)		(933)	(2,320)
Temporary tenants, storage, parking and other		6,741	6,164		26,947	20,561
<b>Total Property rental revenue</b>	<b>(1.6)%</b>	<b>181,624</b>	184,590	<b>2.4%</b>	<b>746,773</b>	729,595
Property operating costs						
Recoverable operating expenses		29,483	31,395		124,080	122,300
Recoverable realty tax expense		34,856	38,334		155,010	156,084
Prior year realty tax expense		(331)	(802)		(1,215)	(3,100)
Other operating costs and adjustments		3,667	1,148		8,501	(462)
<b>Total Property operating costs</b>		<b>67,675</b>	70,075		<b>286,376</b>	274,822
<b>Total NOI</b>	<b>(0.5)%</b>	<b>\$ 113,949</b>	\$ 114,515	<b>1.2%</b>	<b>\$ 460,397</b>	\$ 454,773
NOI margin		62.7%	62.0%		61.7%	62.3%

For the three months ended December 31, 2019, total NOI decreased by \$0.6 million compared to the same prior year period primarily due to lower base rent due to increased dispositions, partially offset by lower property tax shortfall. For the year ended December 31, 2019, total NOI increased by \$5.6 million primarily due to higher base rent from the same property portfolio and new developments coming on-line and higher lease surrender fees, partially offset by lower NOI due to increased disposition activity.

For the three months ended December 31, 2019, NOI margins have increased by 0.7% compared to the same prior year period primarily due to lower property tax shortfall related to development properties. For the year ended December 31, 2019, NOI margins have decreased by 0.6% compared to the same prior year period primarily due to lower margins on NOI related to the hotel property, higher residential operating costs on the recently completed King High Line project and lower straight-line rent.

### Same Property NOI Growth

First Capital's net operating income for its portfolio by property category is presented below:

	Three months ended December 31			Year ended December 31		
	% change	2019	2018	% change	2019	2018
Property rental revenue						
Base rent		\$ 83,897	\$ 81,840		\$ 332,690	\$ 323,621
Operating cost recoveries		19,772	18,884		77,542	74,605
Realty tax recoveries		24,228	24,295		99,547	97,431
Lease surrender fees		162	33		5,190	1,928
Percentage rent		955	756		2,543	2,295
Prior year operating cost and tax recovery adjustments		(219)	(186)		(852)	(1,444)
Temporary tenants, storage, parking and other		2,954	2,694		11,288	10,960
<b>Total Same Property rental revenue</b>		<b>131,749</b>	<b>128,316</b>		<b>527,948</b>	<b>509,396</b>
Property operating costs						
Recoverable operating expenses		20,498	20,381		82,991	80,871
Recoverable realty tax expense		26,140	26,407		106,940	105,184
Prior year realty tax expense		(126)	(576)		(159)	(2,069)
Other operating costs and adjustments		199	(444)		442	(1,407)
<b>Total Same Property operating costs</b>		<b>46,711</b>	<b>45,768</b>		<b>190,214</b>	<b>182,579</b>
<b>Total Same Property NOI <sup>(1)</sup></b>	<b>3.0%</b>	<b>\$ 85,038</b>	<b>\$ 82,548</b>	<b>3.3%</b>	<b>\$ 337,734</b>	<b>\$ 326,817</b>
Major redevelopment		17,237	14,350		62,697	57,262
Ground-up development		1,009	668		2,915	2,769
Acquisitions – 2019		155	—		960	—
Acquisitions – 2018		1,559	1,489		6,802	3,065
Investment properties classified as held for sale		2,592	2,281		9,656	9,488
Dispositions – 2019		4,490	11,352		33,618	44,962
Dispositions – 2018		14	498		95	3,323
Straight-line rent adjustment		1,849	1,323		5,824	7,062
Development land		6	6		96	25
<b>NOI <sup>(1)</sup></b>	<b>(0.5%)</b>	<b>\$ 113,949</b>	<b>\$ 114,515</b>	<b>1.2%</b>	<b>\$ 460,397</b>	<b>\$ 454,773</b>
<b>NOI margin</b>		<b>62.7%</b>	<b>62.0%</b>		<b>61.7%</b>	<b>62.3%</b>

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

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

	Three months ended December 31		Year ended December 31	
	2019	2018 <sup>(1)</sup>	2019	2018 <sup>(1)</sup>
Same Property – Stable	2.6%	2.1%	2.7%	2.7%
Same Property with redevelopment	6.4%	9.7%	8.4%	6.0%
Total Same Property NOI Growth	3.0%	3.1%	3.3%	3.1%

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

For the three months and year ended December 31, 2019, SP NOI increased by \$2.5 million and \$10.9 million, or 3.0% and 3.3%, respectively, primarily due to rent escalations, increased occupancy and lease surrender fees. Excluding lease surrender fees, SP NOI increased \$2.4 million and \$7.7 million or 2.9% and 2.4% respectively.

### NOI by Region

NOI is presented by region as follows:

Three months ended December 31, 2019	Central Region	Eastern Region	Western Region	Other <sup>(1)</sup>	Total
Property rental revenue	\$ 82,724	\$ 40,363	\$ 59,021	\$ (484)	\$ 181,624
Property operating costs	32,378	17,012	19,640	(1,355)	67,675
NOI	\$ 50,346	\$ 23,351	\$ 39,381	\$ 871	\$ 113,949

Three months ended December 31, 2018	Central Region	Eastern Region	Western Region	Other <sup>(1)</sup>	Total
Property rental revenue	\$ 78,282	\$ 46,192	\$ 60,596	\$ (480)	\$ 184,590
Property operating costs	31,089	20,236	20,315	(1,565)	70,075
NOI	\$ 47,193	\$ 25,956	\$ 40,281	\$ 1,085	\$ 114,515

Year ended December 31, 2019	Central Region	Eastern Region	Western Region	Other <sup>(1)</sup>	Total
Property rental revenue	\$ 326,491	\$ 180,194	\$ 242,390	\$ (2,302)	\$ 746,773
Property operating costs	129,947	80,248	81,578	(5,397)	286,376
NOI	\$ 196,544	\$ 99,946	\$ 160,812	\$ 3,095	\$ 460,397

Year ended December 31, 2018	Central Region	Eastern Region	Western Region	Other <sup>(1)</sup>	Total
Property rental revenue	\$ 304,426	\$ 190,384	\$ 237,095	\$ (2,310)	\$ 729,595
Property operating costs	118,559	82,401	79,755	(5,893)	274,822
NOI	\$ 185,867	\$ 107,983	\$ 157,340	\$ 3,583	\$ 454,773

<sup>(1)</sup> Other items principally consist of inter-company eliminations.

### Interest and Other Income

For the three months and year ended December 31, 2019, First Capital's interest and other income totaled \$3.9 million and \$33.0 million, compared to \$6.2 million and \$26.4 million, respectively, for the same prior year periods. The increase of \$6.6 million over prior year was primarily due to higher distribution income from other investments and higher fee income.

## Interest Expense

First Capital's interest expense by type is as follows:

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Mortgages	\$ 13,353	\$ 12,227	\$ 53,920	\$ 46,212
Credit facilities	9,648	5,100	34,163	18,652
Senior unsecured debentures	26,565	27,756	106,326	113,284
Distributions on Exchangeable Units <sup>(1)</sup>	86	—	86	—
Convertible debentures	—	—	—	446
Interest capitalized	(6,659)	(5,929)	(22,661)	(25,354)
Interest expense	\$ 42,993	\$ 39,154	\$ 171,834	\$ 153,240

<sup>(1)</sup> Effective December 30, 2019, 1.2 million Exchangeable Units were issued upon REIT conversion. The distributions declared on the Exchangeable Units are accounted for as interest expense.

For the three months and year ended December 31, 2019, interest expense increased by \$3.8 million and \$18.6 million, respectively, primarily due to an increase in credit facility borrowings related to the \$850 million of new senior unsecured term loans which primarily funded the Gazit share repurchase and a greater amount of mortgages outstanding over the same prior year periods.

During the years ended December 31, 2019 and 2018, approximately 11.7% or \$22.7 million, and 14.2% or \$25.4 million, respectively, of interest expense was capitalized to real estate investments for properties undergoing development or redevelopment projects. The decrease in capitalized interest of \$2.7 million is due to the completion of major development projects over the last 12 months. 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

First Capital's corporate expenses are as follows:

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Salaries, wages and benefits	\$ 7,164	\$ 6,523	\$ 28,825	\$ 27,418
Non-cash compensation	1,369	1,155	5,658	4,805
Other corporate costs	2,815	3,048	12,304	12,408
Total corporate expenses	11,348	10,726	46,787	44,631
Amounts capitalized to investment properties under development	(1,924)	(1,814)	(8,309)	(7,537)
Corporate expenses	\$ 9,424	\$ 8,912	\$ 38,478	\$ 37,094

For the three months and year ended December 31, 2019, corporate expenses increased by \$0.5 million and \$1.4 million, respectively, compared to the same prior year periods primarily due to annual merit increases in 2019.

First Capital 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 years ended December 31, 2019 and 2018, approximately 17.8% or \$8.3 million and 16.9% or \$7.5 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 First Capital's current level of pre-development and early redevelopment activity.

## Other Gains (Losses) and (Expenses)

First Capital's other gains, losses and expenses are as follows:

Three months ended December 31	2019		2018	
	Consolidated Statement of Income	Included in FFO	Consolidated Statement of Income	Included in FFO
Realized gain (loss) on sale of marketable securities	\$ —	\$ —	\$ 43	\$ 43
Unrealized gain (loss) on marketable securities	176	176	(876)	(876)
Investment properties selling costs	(3,275)	—	(660)	—
REIT conversion costs	(3,009)	(3,009)	(942)	(942)
Other	(204)	(204)	179	179
Total per consolidated statement of income	\$ (6,312)	\$ (3,037)	\$ (2,256)	\$ (1,596)
Other gains (losses) and (expenses) under equity accounted joint ventures	(62)	(26)	(29)	—
Total at First Capital's proportionate interest <sup>(6)</sup>	\$ (6,374)	\$ (3,063)	\$ (2,285)	\$ (1,596)

Year ended December 31	2019		2018	
	Consolidated Statement of Income	Included in FFO	Consolidated Statement of Income	Included in FFO
Realized gain (loss) on sale of marketable securities	\$ 1,164	\$ 1,164	\$ 4,232	\$ 4,232
Unrealized gain (loss) on marketable securities	474	474	(623)	(623)
Net gain (loss) on prepayments of debt (non-cash)	—	—	(726)	(726)
Gain on below market purchase <sup>(1)</sup>	—	—	13,975	—
Hotel transaction costs <sup>(2)</sup>	—	—	(2,052)	—
Gain on Investment <sup>(3)</sup>	4,022	4,022	—	—
Proceeds from Target <sup>(4)</sup>	692	692	—	—
Investment properties selling costs	(6,381)	—	(2,556)	—
REIT conversion costs	(5,013)	(5,013)	(1,540)	(1,540)
Transaction costs <sup>(5)</sup>	(3,414)	(3,414)	—	—
Other	(303)	(303)	23	23
Total per consolidated statement of income	\$ (8,759)	\$ (2,378)	\$ 10,733	\$ 1,366
Other gains (losses) and (expenses) under equity accounted joint ventures	(135)	(16)	(1,259)	(697)
Total at First Capital's proportionate interest <sup>(6)</sup>	\$ (8,894)	\$ (2,394)	\$ 9,474	\$ 669

<sup>(1)</sup> Adjustment to exclude gain on below market purchase of hotel property in accordance with the recommendations of REALPAC.

<sup>(2)</sup> Adjustment to transaction costs incurred as part of hotel property acquisition in accordance with the recommendations of REALPAC.

<sup>(3)</sup> During the third quarter, one of FCR's other investments was acquired for cash and share consideration resulting in the recognition of a \$4.0 million gain on investment.

<sup>(4)</sup> In connection with proceeds recognized under Target Canada's CCAA plan of arrangement related to the closure of two Target stores in FCR's portfolio in 2015.

<sup>(5)</sup> As part of the secondary offering by Gazit of 22 million of FCR's shares, FCR paid \$9.0 million or 50% of the underwriters' commission. Given the cross-conditional nature of the secondary offering and the previously announced share repurchase transaction, the \$9.0 million was allocated to both the share repurchase (\$5.6 million) and the secondary offering (\$3.4 million). The amount allocated to the secondary offering was recorded in other gains (losses) and (expenses) during the first quarter.

<sup>(6)</sup> Refer to the "Non-IFRS Financial Measures" section of this MD&A.

For the three months ended December 31, 2019, First Capital recognized \$6.3 million in other losses and expenses in its consolidated statement of income compared to \$2.3 million in 2018. The other losses and expenses in the quarter were primarily due to investment property selling costs of \$3.3 million due to FCR's increased disposition activity and REIT conversion costs of \$3.0 million. For the year ended December 31, 2019, FCR recognized \$8.8 million in other losses and expenses in its consolidated statement of income compared to \$10.7 million in other gains in the prior year. The other losses and expenses for the year ended December 31, 2019 were primarily due to investment property selling costs of \$6.4 million and REIT conversion costs of \$5.0 million, partially offset by gain on investment of \$4.0 million.

## Income Taxes

For the three months and year ended December 31, 2019, deferred income tax recovery totaled \$115.6 million and \$82.2 million, compared to deferred income expense of \$16.4 million and \$79.2 million, respectively, over the same prior year periods. The decrease in deferred tax expense over the prior year was primarily due to a reduction in the deferred tax liability as a result of the REIT conversion which converted the Company into a publicly traded REIT on December 30, 2019. The deferred tax liability was reduced by \$160.9 million to reflect the re-measurement of the underlying temporary differences associated with the Trust's corporate subsidiaries.

## Net Income Attributable to Unitholders / Shareholders

For the three months ended December 31, 2019, net income attributable to Unitholders / Shareholders was \$192.5 million or \$0.87 per diluted unit compared to \$64.3 million or \$0.25 per diluted share for the prior year. For the year ended December 31, 2019, net income attributable to Unitholders / Shareholders was \$401.3 million or \$1.74 per diluted unit compared to \$343.6 million or \$1.37 per diluted share for the prior year. The 62 cent and 37 cent increase per diluted unit, respectively, was primarily due to a \$160.9 million recovery of deferred tax resulting from the completion of the REIT conversion as discussed above.

## CAPITAL STRUCTURE AND LIQUIDITY

### Total Capital Employed

The real estate business is capital intensive by nature. First Capital's capital structure is key to financing growth and providing sustainable cash distributions to Unitholders. 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 FCR's capital structure provides stability and reduces risk, while generating an acceptable return on investment, taking into account the long-term business strategy of First Capital.

As at	December 31, 2019	December 31, 2018
Liabilities (principal amounts outstanding)		
Bank indebtedness	\$ 60	\$ 7,226
Mortgages	1,331,219	1,287,247
Credit facilities	899,165	626,172
Mortgages under equity accounted joint venture (at the Trust's interest) <sup>(1)</sup>	40,144	41,081
Credit facilities under equity accounted joint venture (at the Trust's interest) <sup>(1)</sup>	—	24,195
Exchangeable Units (based on a closing per unit price of \$20.67 at December 31, 2019)	25,010	—
Senior unsecured debentures	2,500,000	2,450,000
Equity capitalization <sup>(2)</sup>		
Common Shares (based on closing per share price of \$18.85 at December 31, 2018)	N/A	4,803,505
Trust Units (based on closing per unit price of \$20.67 at December 31, 2019)	4,505,107	N/A
Enterprise value <sup>(1)</sup>	\$ 9,300,705	\$ 9,239,426

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

<sup>(2)</sup> Equity capitalization is the market value of FCR's units outstanding at a point in time. The measure 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, 2019	December 31, 2018
Weighted average effective interest rate on mortgages, fixed rate unsecured term loans and senior unsecured debentures	4.0%	4.2%
Weighted average maturity on mortgages, fixed rate unsecured term loans and senior unsecured debentures (years)	5.1	5.5
Net debt to total assets <sup>(1)</sup>	46.7%	42.1%
Net debt to Adjusted EBITDA <sup>(1)</sup>	10.0	9.6
Unencumbered aggregate assets <sup>(1)</sup>	\$ 7,037,334	\$ 7,270,358
Unencumbered aggregate assets to unsecured debt, based on fair value <sup>(1)</sup>	2.2	2.5
Adjusted EBITDA interest coverage <sup>(1)</sup>	2.4	2.5

<sup>(1)</sup> Calculated with joint ventures proportionately consolidated in accordance with FCR'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;
- 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, Exchangeable Units and unit-based compensation; other gains (losses) and (expenses); and other non-cash or non-recurring items. The Trust also adjusts for incremental leasing costs, which is a recognized adjustment to Funds from Operations, in accordance with the recommendations of the 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 bank term loans, unsecured credit facilities and senior unsecured debentures.

### Credit Ratings

From November 2012 to March 2019, DBRS and Moody's rated FCR's unsecured debentures as BBB (high) and Baa2, respectively. On April 16, 2019, the Company completed the share repurchase of 36,000,000 common shares from Gazit for gross proceeds of \$741.6 million. The repurchase was funded with senior unsecured bank term loans. As a result of the debt-financed share repurchase transaction, both DBRS and Moody's downgraded the ratings of FCR's unsecured debentures by one notch to BBB (DBRS) and Baa3 with a stable outlook (Moody's).

On November 6, 2019, S&P began rating FCR's senior unsecured debentures and assigned a public rating of BBB- with a stable outlook, as a result, FCR discontinued its Moody's rating services.

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.

As defined by S&P, a credit rating in the BBB category denotes that these debentures exhibit adequate protection parameters and an acceptable capacity to meet its financial commitments. S&P indicates that BBB rated obligations are more likely to weaken FCR's capacity to meet its financial commitments if adverse economic conditions or changing circumstances were to take place. A rating outlook provided by S&P, expressed as positive, stable, negative or developing, is an opinion regarding the potential direction of a credit rating over the intermediate term (typically six months to two years).



## Outstanding Debt and Principal Maturity Profile

The maturity profile including scheduled amortization of First Capital's mortgages and credit facilities as well as its senior unsecured debentures as at December 31, 2019 is summarized in the table below:

As at December 31, 2019	Mortgages	Credit Facilities/Bank Indebtedness	Senior Unsecured Debentures	Total	% Due
2020	\$ 85,274	\$ 29,909	\$ 175,000	\$ 290,183	6.1%
2021	101,861	33,333	175,000	310,194	6.6%
2022	125,222	88,636	450,000	663,858	14.0%
2023	29,791	197,347	300,000	527,138	11.1%
2024	137,540	300,000	300,000	737,540	15.6%
2025	82,575	75,000	300,000	457,575	9.7%
2026	117,202	175,000	300,000	592,202	12.5%
2027	100,816	—	500,000	600,816	12.7%
2028	163,761	—	—	163,761	3.5%
2029	247,956	—	—	247,956	5.2%
2030	83,896	—	—	83,896	1.8%
Thereafter	55,325	—	—	55,325	1.2%
	1,331,219	899,225	2,500,000	4,730,444	100.0%
Add (deduct): unamortized deferred financing costs, premiums and discounts, net	(4,198)	—	(2,787)	(6,985)	
Total	\$ 1,327,021	\$ 899,225	\$ 2,497,213	\$ 4,723,459	

First Capital'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. First Capital also intends to maintain financial flexibility to support a reasonable cost of debt and equity capital over the long term.

## Mortgages

The changes in First Capital's mortgages during the year ended December 31, 2019 are set out below:

Year ended December 31, 2019	Amount	Weighted Average Effective Interest Rate
Balance at beginning of year	\$ 1,285,908	4.0%
Mortgage borrowings	392,850	3.4%
Mortgage repayments	(222,740)	4.9%
Scheduled amortization on mortgages	(27,117)	—%
Mortgages disposed on sale of investment properties	(99,021)	3.4%
Amortization of financing costs and net premium	(2,859)	—%
Balance at end of year	\$ 1,327,021	3.7%

As at December 31, 2019, 100% (December 31, 2018 – 100%) of the outstanding mortgages bore interest at fixed interest rates. The average remaining term of mortgages outstanding increased from 6.2 years as at December 31, 2018 on \$1.3 billion of mortgages to 6.4 years as at December 31, 2019 on \$1.3 billion of mortgages after reflecting borrowing activity and repayments during the period.

**Mortgage Maturity Profile**

The maturity profile including scheduled amortization of First Capital's mortgages as at December 31, 2019 is summarized in the table below:

As at December 31, 2019	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2020	\$ 28,399	\$ 56,875	\$ 85,274	4.8%
2021	28,424	73,437	101,861	4.8%
2022	29,700	95,522	125,222	4.0%
2023	29,791	—	29,791	N/A
2024	29,062	108,478	137,540	3.7%
2025	26,680	55,895	82,575	3.5%
2026	22,842	94,360	117,202	3.2%
2027	20,952	79,864	100,816	3.6%
2028	18,038	145,723	163,761	3.8%
2029	11,076	236,880	247,956	3.5%
2030	4,855	79,041	83,896	3.8%
Thereafter	370	54,955	55,325	3.5%
	\$ 250,189	\$ 1,081,030	\$ 1,331,219	3.7%
Add: unamortized deferred financing costs and premiums and discounts, net			(4,198)	
<b>Total</b>			<b>\$ 1,327,021</b>	

**Credit Facilities**

First Capital 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. Concurrently with the U.S. dollar draws, the Trust enters into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

On April 16, 2019, the Company completed the share repurchase of 36,000,000 common shares from a subsidiary of Gazit-Globe Ltd. ("Gazit") at a price of \$20.60 per share for gross proceeds to Gazit of \$741.6 million. To fund the share repurchase and other operational needs, FCR entered into \$850 million of senior unsecured bank term loans with maturities ranging from 4 - 7 years. Concurrent with funding, the majority of the unsecured bank term loans were swapped to fixed rates bearing a weighted average interest rate of 3.3% with a weighted average term to maturity of 5.8 years. The remaining debt bears interest at a floating rate and can be repaid with no prepayment penalty. As a result of the debt-financed share repurchase transaction, both Moody's and DBRS downgraded the ratings of First Capital's senior unsecured debentures by one notch to Baa3 (Moody's) and BBB (DBRS). On November 6, 2019, S&P began rating FCR's senior unsecured debentures and assigned a public rating of BBB- with a stable outlook, as a result, FCR discontinued its Moody's rating services.

During the third quarter, First Capital entered into a new revolving credit facility with a borrowing capacity of CAD\$250.0 million as well as a new secured construction facility with a borrowing capacity of CAD\$33.3 million, key terms of which are presented in the table below. Concurrent with obtaining the new revolving facility, First Capital reduced the borrowing capacity of its existing revolving facility from \$800 million to \$550 million.

During the fourth quarter, First Capital extended the maturity of its \$20.7 million secured facility to June 30, 2020. In addition, First Capital repaid \$100.0 million of floating rate unsecured bank term loans and \$23.4 million of secured credit facilities.

In addition, First Capital extended the maturity of its \$11.9 million secured facility to January 27, 2020. Subsequent to year-end, First Capital further extended the maturity date by one month.

First Capital's credit facilities as at December 31, 2019 are summarized in the table below:

As at December 31, 2019	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
<b>Unsecured operating facilities</b>						
Revolving facility maturing 2023	\$ 550,000	\$ —	\$ (11,428)	\$ 538,572	BA + 1.45% or Prime + 0.45% or US\$ LIBOR + 1.45%	June 30, 2023
Revolving facility maturing 2022 <sup>(1)</sup>	250,000	(24,743)	—	225,257	BA + 1.10% or Prime + 0.25% or US\$ LIBOR + 1.10%	September 29, 2022
Floating rate unsecured term loan maturing 2023 <sup>(2)</sup>	200,000	(197,287)	—	2,713	BA + 1.20%	April 15, 2023
Fixed rate unsecured term loans maturing 2024 - 2026	550,000	(550,000)	—	—	3.29%	March 28, 2024 - April 14, 2026
<b>Secured construction facilities</b>						
Maturing 2020 <sup>(3)</sup>	15,000	(14,984)	—	16	BA + 2.50% or Prime + 1.00%	January 31, 2020
Maturing 2021	33,333	(33,333)	—	—	2.79%	August 26, 2021
Maturing 2022 <sup>(3)</sup>	138,000	(52,825)	(1,592)	83,583	BA + 1.350% or Prime + 0.350%	October 26, 2022
<b>Secured Facilities</b>						
Maturing 2020	20,734	(3,050)	(818)	16,866	BA + 1.20% or Prime + 0.20%	June 30, 2020
Maturing 2020	11,875	(11,875)	—	—	BA + 1.20% or Prime + 0.20%	January 27, 2020
Maturing 2022	4,313	(4,313)	—	—	BA + 1.20% or Prime + 0.20%	September 28, 2022
Maturing 2022	6,755	(6,755)	—	—	BA + 1.20% or Prime + 0.20%	December 19, 2022
<b>Total</b>	<b>\$ 1,780,010</b>	<b>\$ (899,165)</b>	<b>\$ (13,838)</b>	<b>\$ 867,007</b>		

<sup>(1)</sup> The Trust had drawn in U.S. dollars the equivalent of CAD\$25.0 million which was revalued at CAD\$24.7 million as at December 31, 2019.

<sup>(2)</sup> The Trust had drawn in U.S. dollars the equivalent of CAD\$200.0 million which was revalued at CAD\$197.3 million as at December 31, 2019.

<sup>(3)</sup> The Trust now consolidates the assets, liabilities, revenues and expenses of MMUR which was previously equity accounted.

## Senior Unsecured Debentures

As at December 31, 2019		Interest Rate		Remaining Term to Maturity	Principal Outstanding	
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	(years)	
M	April 30, 2020	April 30, October 30	5.60%	5.60%	0.3	\$ 175,000
N	March 1, 2021	March 1, September 1	4.50%	4.63%	1.2	175,000
O	January 31, 2022	January 31, July 31	4.43%	4.59%	2.1	200,000
P	December 5, 2022	June 5, December 5	3.95%	4.18%	2.9	250,000
Q	October 30, 2023	April 30, October 30	3.90%	3.97%	3.8	300,000
R	August 30, 2024	August 30, February 28	4.79%	4.72%	4.7	300,000
S	July 31, 2025	January 31, July 31	4.32%	4.24%	5.6	300,000
T	May 6, 2026	November 6, May 6	3.60%	3.56%	6.4	300,000
U	July 12, 2027	January 12, July 12	3.75%	3.82%	7.5	300,000
V	January 22, 2027	January 22, July 22	3.46%	3.54%	7.1	200,000
Weighted Average or Total			4.18%	4.22%	4.5	\$ 2,500,000

On July 22, 2019, First Capital completed the issuance of \$200 million principal amount of Series V senior unsecured debentures due January 22, 2027. These debentures bear interest at a coupon rate of 3.456% per annum, payable semi-annually commencing January 22, 2020. The net proceeds of the offering were used to pay existing debt.

### Unitholders' / Shareholders' Equity

Unitholders' equity amounted to \$4.4 billion as at December 31, 2019, compared to Shareholders' equity of \$5.0 billion as at December 31, 2018. The decrease is primarily attributed to the repurchase and cancellation of 36 million common shares for \$741.6 million to complete the Gazit share repurchase transaction.

### REIT conversion

On December 30, 2019, the Plan of Arrangement to convert the Company into a publicly traded real estate investment trust was completed. Under the terms of the Arrangement, each outstanding common share of the Company was exchanged for one Trust Unit, unless a qualifying Shareholder elected to receive an Exchangeable Unit. Effective December 30, 2019, the following transactions took place:

- 1.2 million Exchangeable Units, which are economically equivalent to Trust Units, were issued and approximately \$16.0 million was reclassified from share capital to Exchangeable Units. As the Exchangeable Units are accounted for as financial liabilities, \$9.3 million was charged to retained earnings to adjust them to their fair value at conversion.
- 218.0 million Trust Units were issued under the Arrangement and approximately \$2.9 billion was reclassified from share capital to Trust Unit capital within unitholders' equity.
- All grants outstanding under the stock option plan and share unit plans were transferred on a one-to-one basis to unit-based compensation plans. Upon conversion the unit-based compensation plans are now accounted for as liabilities and approximately \$21.7 million was reclassified from equity to liabilities at conversion.

As at February 10, 2020, there were 218.0 million Trust Units and 1.2 million Exchangeable Units outstanding.

### Unit Options

As at December 31, 2019, First Capital had 5.6 million unit options outstanding, with an average exercise price of \$19.70, which, if exercised, would result in First Capital receiving proceeds of \$110.0 million.

## Liquidity

Liquidity risk exists due to the possibility of First Capital 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. First Capital 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 First Capital's existing revolving credit facilities. If necessary, FCR is also able to obtain financing on its unencumbered assets. The following table summarizes First Capital's liquidity position:

As at (millions of dollars)	December 31, 2019	December 31, 2018
Total available under credit facilities	\$ 867	\$ 532
Cash and cash equivalents	\$ 26	\$ 16
Unencumbered aggregate assets	\$ 7,037	\$ 7,270

First Capital 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, 2019, and availability on existing credit facilities, address substantially all of the contractual 2020 debt maturities and contractually committed costs to complete current development projects.

## Cash Flows

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

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Cash provided by (used in) operating activities	\$ 106,905	\$ 114,128	\$ 269,147	\$ 283,012
Cash provided by (used in) financing activities	(436,190)	43,411	(591,797)	12,315
Cash provided by (used in) investing activities	335,343	(157,536)	332,619	(291,300)
Net change in cash and cash equivalents	\$ 6,058	\$ 3	\$ 9,969	\$ 4,027

The following table presents the excess (shortfall) of cash provided by operating activities over distributions / dividends declared:

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 106,905	\$ 114,128	\$ 269,147	\$ 283,012
Distributions / dividends declared <sup>(1)</sup>	(15,620)	(54,973)	(165,224)	(215,537)
Excess (shortfall) of cash provided by operating activities over distributions / dividends declared	\$ 91,285	\$ 59,155	\$ 103,923	\$ 67,475

<sup>(1)</sup> FCR paid cash dividends of \$0.860 per share for both years ended December 31, 2019 and 2018.

Cash provided by operating activities exceeded distributions / dividends declared for the three months and years ended December 31, 2019 and 2018.



## Contractual Obligations

An analysis of First Capital's contractual maturities of its material financial liabilities and other contractual commitments, as at December 31, 2019 is set out below:

As at December 31, 2019	Payments due by period					Total
	2020	2021 to 2022	2023 to 2024	Thereafter		
Scheduled mortgage principal amortization	\$ 28,399	\$ 58,124	\$ 58,853	\$ 104,813	\$ 250,189	
Mortgage principal repayments on maturity	56,875	168,959	108,478	746,718	1,081,030	
Credit facilities and bank indebtedness	29,909	121,969	497,347	250,000	899,225	
Senior unsecured debentures	175,000	625,000	600,000	1,100,000	2,500,000	
Interest obligations <sup>(1)</sup>	174,759	301,620	216,082	174,881	867,342	
Land leases (expiring between 2023 and 2061)	1,199	2,413	1,489	16,808	21,909	
Contractually committed costs to complete current development projects	73,745	—	—	—	73,745	
Other committed costs	7,028	—	—	—	7,028	
<b>Total contractual obligations</b>	<b>\$ 546,914</b>	<b>\$ 1,278,085</b>	<b>\$ 1,482,249</b>	<b>\$ 2,393,220</b>	<b>\$ 5,700,468</b>	

<sup>(1)</sup> Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2019 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

First Capital has \$33.3 million of outstanding letters of credit issued by financial institutions to support certain of FCR's contractual obligations and \$0.1 million of bank overdrafts.

First Capital's estimated cost to complete properties currently under development is \$194.8 million, of which \$73.7 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

First Capital 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 FCR. First Capital is contingently liable, jointly and severally, for approximately \$77.5 million (December 31, 2018 – \$152.2 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 First Capital's Proportionate Interest

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

<i>As at</i>	December 31, 2019			December 31, 2018		
	Consolidated Balance Sheet <sup>(1)</sup>	Adjustments for Proportionate Interest	Proportionate Interest <sup>(2)</sup>	Consolidated Balance Sheet <sup>(1)</sup>	Adjustments for Proportionate Interest	Proportionate Interest <sup>(2)</sup>
<b>ASSETS</b>						
Investment properties	\$ 9,593,530	\$ 9,259	\$ 9,602,789	\$ 9,682,614	\$ 125,432	\$ 9,808,046
Residential development inventory	10,205	5,742	15,947	9,510	—	9,510
Hotel property	62,199	—	62,199	58,604	—	58,604
Loans, mortgages and other assets	166,033	2,651	168,684	364,059	2,880	366,939
Cash and cash equivalents	25,503	2,279	27,782	15,534	9,141	24,675
Amounts receivable	31,521	307	31,828	36,391	(1,097)	35,294
Other assets	54,271	16,978	71,249	56,307	5,822	62,129
Investment in joint ventures	59,498	(59,498)	—	144,375	(144,375)	—
Investment properties classified as held for sale	158,600	—	158,600	85,661	43,305	128,966
<b>Total assets</b>	<b>\$ 10,161,360</b>	<b>\$ (22,282)</b>	<b>\$ 10,139,078</b>	<b>\$ 10,453,055</b>	<b>\$ 41,108</b>	<b>\$ 10,494,163</b>
<b>LIABILITIES</b>						
Mortgages	\$ 1,327,021	\$ 40,036	\$ 1,367,057	\$ 1,285,908	\$ 40,957	\$ 1,326,865
Credit facilities	899,165	(19,749)	879,416	626,172	5,643	631,815
Bank indebtedness	60	—	60	7,226	—	7,226
Senior unsecured debentures	2,497,213	—	2,497,213	2,447,278	—	2,447,278
Exchangeable Units	25,010	—	25,010	—	—	—
Deferred tax liabilities	701,549	—	701,549	793,300	—	793,300
Debt secured by investment properties held for sale	—	—	—	—	18,553	18,553
Accounts payable and other liabilities	235,836	6,345	242,181	285,099	5,785	290,884
<b>Total liabilities</b>	<b>5,685,854</b>	<b>26,632</b>	<b>5,712,486</b>	<b>5,444,983</b>	<b>70,938</b>	<b>5,515,921</b>
<b>EQUITY</b>						
Unitholders' / Shareholders' equity	4,426,592	—	4,426,592	4,978,242	—	4,978,242
Non-controlling interest	48,914	(48,914)	—	29,830	(29,830)	—
<b>Total equity</b>	<b>4,475,506</b>	<b>(48,914)</b>	<b>4,426,592</b>	<b>5,008,072</b>	<b>(29,830)</b>	<b>4,978,242</b>
<b>Total liabilities and equity</b>	<b>\$ 10,161,360</b>	<b>\$ (22,282)</b>	<b>\$ 10,139,078</b>	<b>\$ 10,453,055</b>	<b>\$ 41,108</b>	<b>\$ 10,494,163</b>

<sup>(1)</sup> The consolidated balance sheets have been presented on a non-classified basis for purposes of this reconciliation.

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

### Reconciliation of Consolidated Statements of Income to First Capital's Proportionate Interest

The following table provides a reconciliation of First Capital's consolidated statements of income for the three months ended December 31, 2019, to its proportionate interest.

Three months ended December 31	2019			2018		
	Consolidated Statements of Income	Adjustment to proportionate interest	Proportionate interest <sup>(1)</sup>	Consolidated Statements of Income	Adjustment to proportionate interest	Proportionate interest <sup>(1)</sup>
Property rental revenue	\$ 181,624	\$ 2,295	\$ 183,919	\$ 184,590	\$ 2,089	\$ 186,679
Property operating costs	67,675	1,976	69,651	70,075	550	70,625
Net operating income	113,949	319	114,268	114,515	1,539	116,054
Other income and expenses						
Interest and other income	3,870	388	4,258	6,150	11	6,161
Interest expense	(42,993)	(342)	(43,335)	(39,154)	(515)	(39,669)
Corporate expenses	(9,424)	226	(9,198)	(8,912)	292	(8,620)
Abandoned transaction costs	(24)	—	(24)	(53)	—	(53)
Amortization expense	(1,231)	(666)	(1,897)	(1,020)	—	(1,020)
Share of profit from joint ventures	(563)	563	—	268	(268)	—
Other gains (losses) and (expenses)	(6,312)	(62)	(6,374)	(2,256)	(29)	(2,285)
(Increase) decrease in value of Exchangeable Units	230	—	230	—	—	—
Increase (decrease) in value of investment properties, net	19,003	(90)	18,913	10,972	(840)	10,132
	(37,444)	17	(37,427)	(34,005)	(1,349)	(35,354)
Income before income taxes	76,505	336	76,841	80,510	190	80,700
Deferred income taxes	(115,618)	—	(115,618)	16,394	—	16,394
Net income	\$ 192,123	\$ 336	\$ 192,459	\$ 64,116	\$ 190	\$ 64,306
Net income attributable to:						
Unitholders / Shareholders	\$ 192,459	\$ —	\$ 192,459	\$ 64,306	\$ —	\$ 64,306
Non-controlling interest	(336)	336	—	(190)	190	—
	\$ 192,123	\$ 336	\$ 192,459	\$ 64,116	\$ 190	\$ 64,306
Net income per unit / share attributable to Unitholders / Shareholders:						
Basic	\$ 0.88			\$ 0.25		
Diluted	\$ 0.87			\$ 0.25		

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

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

Year ended December 31	2019						2018
	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest <sup>(1)</sup>	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest <sup>(1)</sup>	
Property rental revenue	\$ 746,773	\$ 9,126	\$ 755,899	\$ 729,595	\$ 8,312	\$ 737,907	
Property operating costs	286,376	5,758	292,134	274,822	2,752	277,574	
Net operating income	460,397	3,368	463,765	454,773	5,560	460,333	
Other income and expenses							
Interest and other income	33,049	(822)	32,227	26,429	1,930	28,359	
Interest expense	(171,834)	(1,740)	(173,574)	(153,240)	(2,209)	(155,449)	
Corporate expenses	(38,478)	629	(37,849)	(37,094)	1,171	(35,923)	
Abandoned transaction costs	(677)	—	(677)	(177)	(1)	(178)	
Amortization expense	(4,511)	(1,502)	(6,013)	(3,235)	—	(3,235)	
Share of profit from joint ventures	1,699	(1,699)	—	30,411	(30,411)	—	
Other gains (losses) and (expenses)	(8,759)	(135)	(8,894)	10,733	(1,259)	9,474	
(Increase) decrease in value of Exchangeable Units	230	—	230	—	—	—	
Increase (decrease) in value of investment properties, net	61,037	(11,097)	49,940	102,389	16,985	119,374	
	(128,244)	(16,366)	(144,610)	(23,784)	(13,794)	(37,578)	
Income before income taxes	332,153	(12,998)	319,155	430,989	(8,234)	422,755	
Deferred income taxes	(82,187)	(3)	(82,190)	79,151	(2)	79,149	
Net income	\$ 414,340	\$ (12,995)	\$ 401,345	\$ 351,838	\$ (8,232)	\$ 343,606	
Net income attributable to:							
Unitholders / Shareholders	\$ 401,345	\$ —	\$ 401,345	\$ 343,606	\$ —	\$ 343,606	
Non-controlling interest	12,995	(12,995)	—	8,232	(8,232)	—	
	\$ 414,340	\$ (12,995)	\$ 401,345	\$ 351,838	\$ (8,232)	\$ 343,606	
Net income per unit / share attributable to Unitholders / Shareholders:							
Basic	\$ 1.75			\$ 1.38			
Diluted	\$ 1.74			\$ 1.37			

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

## FFO and ACFO

### Funds from Operations

A reconciliation from net income attributable to Unitholders / Shareholders to FFO can be found in the table below:

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Net income attributable to Unitholders / Shareholders	\$ 192,459	\$ 64,306	\$ 401,345	\$ 343,606
Add (deduct):				
(Increase) decrease in value of investment properties <sup>(1)</sup>	(18,913)	(10,132)	(49,940)	(119,374)
Adjustment for equity accounted joint ventures <sup>(2)</sup>	666	346	2,057	1,544
Incremental leasing costs <sup>(3)</sup>	1,565	1,616	6,680	6,438
Amortization expense <sup>(4)</sup>	198	161	693	413
Gain on below market purchase <sup>(5)</sup>	—	—	—	(13,975)
Transaction costs <sup>(6)</sup>	—	—	—	2,052
Distributions on Exchangeable Units <sup>(7)</sup>	86	—	86	—
Increase (decrease) in value of Exchangeable Units <sup>(7)</sup>	(230)	—	(230)	—
Increase (decrease) in value of unit-based compensation plans <sup>(8)</sup>	(81)	—	(81)	—
Investment properties selling costs <sup>(1)</sup>	3,311	689	6,500	3,118
Deferred income taxes <sup>(1)</sup>	(115,618)	16,394	(82,190)	79,149
FFO <sup>(9)</sup>	\$ 63,443	\$ 73,380	\$ 284,920	\$ 302,971

<sup>(1)</sup> At FCR's proportionate interest.

<sup>(2)</sup> Adjustment related to FCR's equity accounted joint ventures in accordance with the recommendations of REALPAC.

<sup>(3)</sup> Adjustment to capitalize incremental leasing costs in accordance with the recommendations of REALPAC.

<sup>(4)</sup> Adjustment to exclude hotel property amortization in accordance with the recommendations of REALPAC.

<sup>(5)</sup> Adjustment to exclude gain on below market purchase of hotel property in accordance with the recommendations of REALPAC.

<sup>(6)</sup> Adjustment to transaction costs incurred as part of hotel property acquisition in accordance with the recommendations of REALPAC.

<sup>(7)</sup> Adjustment to exclude distributions and fair value adjustments on Exchangeable Units in accordance with the recommendations of REALPAC.

<sup>(8)</sup> Adjustment to exclude fair value adjustments on unit-based compensation plans in accordance with the recommendations of REALPAC.

<sup>(9)</sup> Refer to the "Non-IFRS Financial Measures" section of this MD&A.

The components of FFO at proportionate interest are as follows:

	Three months ended December 31			Year ended December 31		
	% change	2019	2018	% change	2019	2018
Net operating income		\$ 114,268	\$ 116,054		\$ 463,765	\$ 460,333
Interest and other income		4,258	6,161		32,227	28,359
Interest expense <sup>(1)</sup>		(43,249)	(39,323)		(172,933)	(153,905)
Corporate expenses <sup>(2)</sup>		(7,714)	(7,004)		(31,250)	(29,485)
Abandoned transaction costs		(24)	(53)		(677)	(178)
Amortization expense <sup>(3)</sup>		(1,033)	(859)		(3,818)	(2,822)
Other gains (losses) and (expenses) <sup>(4)</sup>		(3,063)	(1,596)		(2,394)	669
FFO <sup>(5)</sup>	(13.5)%	\$ 63,443	\$ 73,380	(6.0)%	\$ 284,920	\$ 302,971
FFO per diluted unit / share	0.3 %	\$ 0.29	\$ 0.29	2.0 %	\$ 1.23	\$ 1.21
Weighted average number of units / shares – diluted – FFO (in thousands)	(13.8)%	220,545	255,821	(7.9)%	230,810	250,474

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

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

<sup>(3)</sup> Excludes certain amortization expense in accordance with the recommendations of REALPAC.

<sup>(4)</sup> At FCR's proportionate interest, adjusted to exclude investment properties selling costs in accordance with the recommendations of REALPAC.

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



For the three months ended December 31, 2019, FFO totaled \$63.4 million or \$0.29 per diluted unit compared to \$73.4 million or \$0.29 per diluted share in the same prior year period. FFO decreased \$9.9 million over the prior year period primarily due to higher interest expense following the share repurchase transaction, lower NOI driven by increased dispositions and higher REIT conversion costs. FFO per diluted unit increased 0.3% to \$0.29 primarily due to the decrease in the weighted average diluted units outstanding for the quarter following the share repurchase transaction.

For the year ended December 31, 2019, FFO totaled \$284.9 million or \$1.23 per diluted unit compared to \$303.0 million or \$1.21 per diluted share for the prior year. The decrease of \$18.1 million over the prior year period was primarily due to higher interest expense of \$19.0 million related to the senior unsecured bank term loans First Capital entered into to fund the share repurchase. FFO per diluted unit increased 2.0% primarily due to the impact of the decrease in the weighted average diluted units outstanding for the year following the share repurchase transaction.

### 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	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 106,905	\$ 114,128	\$ 269,147	\$ 283,012
Add (deduct):				
Working capital adjustments <sup>(1)</sup>	(35,076)	(34,157)	4,411	(1,181)
Adjustment for equity accounted joint ventures	449	1,130	2,647	3,546
Revenue sustaining capital expenditures	(2,307)	(5,456)	(17,328)	(15,523)
Recoverable capital expenditures	(1,612)	(4,780)	(6,815)	(7,945)
Leasing costs on properties under development	391	405	1,670	1,610
Realized gain (loss) on sale of marketable securities	—	43	1,164	4,232
Non-controlling interest	(192)	59	(2,480)	(583)
ACFO <sup>(2)</sup>	\$ 68,558	\$ 71,372	\$ 252,416	\$ 267,168

<sup>(1)</sup> 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 in the most recent REALPAC whitepaper on ACFO issued in February 2019.

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

For the three months and year ended December 31, 2019, ACFO totaled \$68.6 million and \$252.4 million compared to \$71.4 million and \$267.2 million for the prior year periods, respectively. The \$14.8 million decrease in ACFO for the year ended December 31, 2019 was primarily due to lower cash generated from operating activities, as a result of higher interest expense following the share repurchase, higher REIT conversion costs and a lower realized gain on sale of marketable securities.

### ACFO Payout Ratio

First Capital's ACFO payout ratio for the four quarters ended December 31, 2019 is calculated as follow:

	Year ended December 31, 2019	Q4 2019	Q3 2019	Q2 2019	Q1 2019
ACFO <sup>(1)</sup>	\$ 252,416	\$ 68,558	\$ 60,533	\$ 70,855	\$ 52,470
Cash dividends paid <sup>(2)</sup>	203,830	47,106	47,104	54,832	54,788
ACFO payout ratio <sup>(1)</sup>	80.8%				

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

<sup>(2)</sup> FCR was a corporation and paid dividends in 2019 until it converted to a REIT on December 30, 2019.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

First Capital's ACFO payout ratio for the four quarters ended December 31, 2018 is calculated as follow:

	Year ended December 31, 2018		Q4 2018		Q3 2018		Q2 2018		Q1 2018	
ACFO <sup>(1)</sup>	\$	267,168	\$	71,372	\$	71,464	\$	74,030	\$	50,302
Cash dividends paid		212,651		54,782		52,680		52,636		52,553
ACFO payout ratio <sup>(1)</sup>		79.6%								

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

First Capital considers a rolling four quarter payout ratio (cash dividends / ACFO) to be more relevant than a payout ratio in any given quarter due to seasonal fluctuations in ACFO. For the four quarters ended December 31, 2019, the ACFO payout was 80.8% (December 31, 2018 - 79.6%).

## Net Asset Value

The following table provides FCR's calculation of NAV for the years ended December 31, 2019 and 2018:

As at	December 31, 2019		December 31, 2018	
Unitholders' / Shareholders' equity	\$	4,426,592	\$	4,978,242
Exchangeable Units		25,010		—
Deferred tax liabilities		701,549		793,300
Net Asset Value (NAV) <sup>(1)</sup>	\$	5,153,151	\$	5,771,542
Units outstanding - diluted <sup>(1)</sup>		220,343		255,515
NAV per unit <sup>(1)</sup>	\$	23.39	\$	22.59

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

The increase in NAV per unit from \$22.59 to \$23.39 is primarily due to fair value increases on investment properties and the impact of the share repurchase.

## DIVIDENDS / DISTRIBUTIONS

First Capital has paid regular quarterly dividends to common Shareholders since it commenced operations as a public company in 1994. Upon conversion to a REIT, First Capital adopted a distribution policy, as permitted under the Declaration of Trust, to make monthly cash distributions to Unitholders initially equal to, on an annual basis, \$0.860 per Trust Unit. The initial monthly distribution of \$0.0716 per unit was declared to unitholders of record on December 31, 2019, and will be paid by First Capital on January 15, 2020. Distributions on the Trust Units are declared at the discretion of the Board of Trustees and are set from time to time after taking into consideration FCR's capital requirements, its alternative sources of capital and common industry cash distribution practices. The following chart specifies dividends / distributions declared by First Capital:

(in dollars)	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Distributions declared per unit	\$ 0.072	N/A	\$ 0.072	N/A
Dividends declared per common share <sup>(1)</sup>	N/A	\$ 0.215	\$ 0.645	\$ 0.860

<sup>(1)</sup> FCR paid cash dividends of \$0.860 per share for both years ended December 31, 2019 and 2018.

## SUMMARY OF FINANCIAL RESULTS OF LONG-TERM DEBT GUARANTORS

First Capital's senior unsecured debentures are guaranteed by the wholly owned subsidiaries of the Trust, 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, 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. These guarantees are intended to eliminate structural subordination, which arises as a consequence of a significant portion of First Capital's assets being held primarily in two significant subsidiaries.

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

		<i>(millions of dollars)</i>									
		2019		2018		2019		2018		2019	
		FCR <sup>(1)</sup>		Guarantors <sup>(2)</sup>		Non-Guarantors <sup>(3)</sup>		Consolidation Adjustments <sup>(4)</sup>		Total Consolidated	
Property rental revenue	\$	328	\$ 309	\$ 422	\$ 423	\$ 3	\$ 1	\$ (6)	\$ (3)	\$ 747	\$ 730
NOI <sup>(5)</sup>		217	204	245	252	3	2	(5)	(3)	460	455
Net income attributable to Unitholders / Shareholders		401	344	288	172	12	25	(300)	(197)	401	344

		<i>(millions of dollars)</i>								
		FCR <sup>(1)</sup>		Guarantors <sup>(2)</sup>		Non-Guarantors <sup>(3)</sup>		Consolidation Adjustments <sup>(4)</sup>		Total Consolidated
Current assets	\$	125	\$ 188	\$ 1	\$ —	\$ 314				
Non-current assets		122	10,206	161	(642)	9,847				
Current liabilities		411	90	2	(2)	501				
Non-current liabilities		4,425	736	40	(16)	5,185				

		<i>(millions of dollars)</i>								
		FCR <sup>(1)</sup>		Guarantors <sup>(2)</sup>		Non-Guarantors <sup>(3)</sup>		Consolidation Adjustments <sup>(4)</sup>		Total Consolidated
Current assets	\$	162	\$ 308	\$ 68	\$ (94)	\$ 444				
Non-current assets		9,409	5,159	67	(4,626)	10,009				
Current liabilities		467	184	6	(2)	655				
Non-current liabilities		4,096	730	34	(70)	4,790				

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

<sup>(2)</sup> This column represents the aggregate of all Guarantor subsidiaries.

<sup>(3)</sup> This column represents the aggregate of all Non-Guarantor subsidiaries.

<sup>(4)</sup> 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 FCR on a consolidated basis.

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

## RELATED PARTY TRANSACTIONS

### Gazit-Globe

Effective April 16, 2019, Gazit's ownership of First Capital was reduced to approximately 9.9% following the completion of the secondary offering and share repurchase transactions. In the fourth quarter, Gazit sold a portion of its remaining interest in FCR, reducing its ownership as at December 31, 2019 to 6.7% (December 31, 2018 - 31.3%). Subsequent to year-end, Gazit further reduced its ownership interest in FCR from 6.7% to 4.4%.

Corporate and other amounts receivable include amounts due from Gazit. Gazit reimburses First Capital for certain accounting and administrative services provided to it by FCR. Such amounts consist of the following:

	Year ended December 31	
	2019	2018
Reimbursements for professional services	\$ 157	\$ 186

As at December 31, 2019, amounts due from Gazit were \$27 thousand (December 31, 2018 – \$40 thousand).

### Joint Ventures

For the three months and year ended December 31, 2019, First Capital earned fee income of Nil (December 31, 2018 - \$0.2 million) and \$1.9 million (December 31, 2018 – \$4.5 million), respectively, from its joint ventures.

During the year ended December 31, 2019, First Capital also advanced \$1.2 million (December 31, 2018 – \$2.1 million) to one of its joint ventures.

### Subsidiaries of the Trust

The audited annual consolidated financial statements include the financial statements of First Capital Real Estate Investment Trust and all of its subsidiaries, including First Capital Realty Inc., First Capital REIT Limited Partnership and First Capital Holdings Trust. First Capital Realty Inc. and First Capital Holdings Trust are the significant subsidiaries of the Trust and are wholly owned.

## SUBSEQUENT EVENTS

### Monthly Distribution

On January 15, 2020, First Capital announced that it will pay a distribution, for the month of January, of \$0.072 per Trust Unit on February 14, 2020 to Unitholders of record on January 31, 2020.

## QUARTERLY FINANCIAL INFORMATION

<i>(unit / share counts in thousands)</i>	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property rental revenue	\$ 181,624	\$ 183,650	\$ 186,825	\$ 194,674	\$ 184,590	\$ 182,368	\$ 181,852	\$ 180,785
Net operating income <sup>(1)</sup>	\$ 113,949	\$ 115,023	\$ 115,994	\$ 115,431	\$ 114,515	\$ 114,800	\$ 113,816	\$ 111,642
Net income attributable to Unitholders / Shareholders	\$ 192,459	\$ 65,490	\$ 81,244	\$ 62,152	\$ 64,306	\$ 131,427	\$ 81,929	\$ 65,944
Net income per unit / share attributable to Unitholders / Shareholders:								
Basic	\$ 0.88	\$ 0.30	\$ 0.36	\$ 0.24	\$ 0.25	\$ 0.52	\$ 0.33	\$ 0.27
Diluted	\$ 0.87	\$ 0.30	\$ 0.36	\$ 0.24	\$ 0.25	\$ 0.52	\$ 0.33	\$ 0.27
Weighted average number of diluted units / shares outstanding – IFRS	220,545	220,664	226,417	256,178	255,821	254,100	246,196	247,044
FFO <sup>(1)</sup>	\$ 63,443	\$ 75,595	\$ 70,229	\$ 75,653	\$ 73,380	\$ 76,510	\$ 79,148	\$ 73,933
FFO per diluted unit / share <sup>(1)</sup>	\$ 0.29	\$ 0.34	\$ 0.31	\$ 0.30	\$ 0.29	\$ 0.30	\$ 0.32	\$ 0.30
Weighted average number of diluted units / shares outstanding – FFO	220,545	220,664	226,417	256,178	255,821	254,100	246,196	245,717
Cash provided by operating activities	\$ 106,905	\$ 70,254	\$ 43,106	\$ 48,882	\$ 114,128	\$ 72,049	\$ 51,356	\$ 45,479
ACFO <sup>(1)</sup>	\$ 68,558	\$ 60,533	\$ 70,855	\$ 52,470	\$ 71,372	\$ 71,464	\$ 74,030	\$ 50,302
Distribution declared per unit / dividend per share <sup>(2)</sup>	\$ 0.072	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215
Total assets	\$10,161,360	\$10,585,127	\$10,375,405	\$10,465,288	\$10,453,055	\$10,317,034	\$10,070,477	\$9,980,267
Total mortgages and credit facilities	\$ 2,226,186	\$ 2,655,151	\$ 2,551,058	\$ 1,891,884	\$ 1,912,080	\$ 1,678,862	\$ 1,691,387	\$ 1,694,732
Unitholders' / Shareholders' equity	\$ 4,426,592	\$ 4,272,781	\$ 4,252,318	\$ 4,979,080	\$ 4,978,242	\$ 4,981,511	\$ 4,703,593	\$ 4,669,877
<b>Other</b>								
Number of properties	158	166	165	166	166	166	162	161
GLA - at 100% (in thousands)	23,528	25,092	25,294	25,334	25,456	25,519	25,327	25,267
GLA - at ownership interest (in thousands)	20,927	22,936	23,136	23,731	23,854	23,797	23,700	23,648
Monthly average occupancy %	96.6%	96.4%	96.7%	96.6%	96.6%	96.4%	96.2%	96.0%
Total portfolio occupancy %	96.9%	96.7%	96.8%	96.8%	96.7%	96.5%	96.3%	96.2%

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

<sup>(2)</sup> FCR moved from quarterly dividends to monthly distributions following its conversion to a REIT. FCR paid cash dividends of \$0.860 per share for both years ended December 31, 2019 and 2018.

## CRITICAL ACCOUNTING ESTIMATES

First Capital 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 Trust'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 First Capital 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*

First Capital retains its REIT status if it meets the prescribed conditions under the *Income Tax Act (Canada)* (the "Tax Act"). Management uses judgment in its interpretation and application of these conditions. First Capital determined that it qualifies as a REIT for the current period and expects to meet the prescribed conditions going forward. However, should the Trust no longer meet the REIT conditions, substantial adverse tax consequences may result.

With respect to its corporate subsidiaries, the Trust 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 Trust reflects the Trust's interpretation of the relevant tax laws. The Trust is also required to estimate the timing of reversals of temporary differences between accounting and taxable income in determining the appropriate rate to apply in calculating deferred taxes.

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

### Estimates and Assumptions

#### *Valuation of Investment properties*

First Capital'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 a certified staff appraiser employed by FCR, 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.

Income producing properties 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).

Properties undergoing development, redevelopment or expansion are valued either (i) using the discounted cash flow method, with a deduction for costs to complete the project, or (ii) at cost, when cost approximates fair value. 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 First Capital's properties after adjusting for factors specific to the site, including its location, zoning, servicing and configuration.

Refer to Note 2(h) of the audited consolidated financial statements for the year ended December 31, 2019 for further information on the estimates and assumptions made by Management in connection with the fair values of investment properties.

### **Valuation of Financial Instruments**

First Capital is required to determine the fair value of its loans, mortgages and credit facilities, senior unsecured debentures, Exchangeable Units, unit-based compensation plans, loans and mortgages receivable, other equity investments, marketable securities and derivatives. The fair values of the 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.
- Exchangeable Units are based on the closing price of FCR's Trust Units at each period end.
- The fair value of the unit-based compensation plans are based on the following:
  - Unit Options:* Fair value of each tranche is valued separately using a Black-Scholes option pricing model;
  - Deferred Units/Restricted Units:* Fair value is based on the closing price of FCR's Trust Units at each period end; and
  - Performance Units:* Fair value is calculated using a Monte-Carlo simulation model.
- 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.
- Equity investments in certain funds are based on the fair value of the properties held in the funds. The fair value of the equity investment in a private entity approximates its cost.

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.

## **ACCOUNTING POLICY CHANGES**

Refer to Note 3 of the audited annual consolidated financial statements for the years ended December 31, 2019 and 2018 for details on the impact of accounting policy changes related to the adoption of new and amended IFRS pronouncements.

## CONTROLS AND PROCEDURES

As at December 31, 2019, the Chief Executive Officer and the Chief Financial Officer of First Capital, with the assistance of other staff and Management of FCR to the extent deemed necessary, have designed FCR's disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by FCR under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In the design of its internal controls over financial reporting, First Capital 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 First Capital have evaluated, or caused the evaluation of, under their supervision, the effectiveness of FCR'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, 2019, and have concluded that such disclosure controls and procedures and internal controls over financial reporting were operating effectively.

First Capital did not make any changes in its internal controls over financial reporting during the quarter ended December 31, 2019 that have had, or are reasonably likely to have, a material effect on FCR's internal controls over financial reporting. On an ongoing basis, FCR 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, First Capital intends to take the necessary steps to minimize the consequences thereof.

## RISKS AND UNCERTAINTIES

First Capital, 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 Trustees, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk First Capital encounters in conducting its business and some of the actions it takes to mitigate these risks are outlined below. First Capital's most current Annual Information Form, which provides a detailed description of these and other risks that may affect FCR, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on FCR's website at [www.fcr.ca](http://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 and unsecured debenture 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 First Capital operates can also have a significant impact on FCR's tenants and, in turn, FCR'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 FCR, and may also limit FCR's ability to attract new or replacement tenants.

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

Revenue from First Capital's properties depends primarily on the ability of FCR'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 FCR'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 FCR, FCR's financial position and results of operations would be adversely affected. In the event of default by a tenant, FCR may experience delays and unexpected costs in enforcing its rights as landlord under lease terms, which may also adversely affect FCR's financial position and results of operations. FCR 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.

First Capital'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 First Capital's annual minimum rent experience financial difficulty and are unable to pay rent or fulfill their lease commitments, FCR's financial position, results of operation and the value of its properties concerned would be adversely affected.

First Capital'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 First Capital. In addition, the terms of any subsequent lease may be less favourable to FCR than the existing lease.

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

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

The amount of indebtedness outstanding could require FCR 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. FCR'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 FCR, 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 FCR than the existing financing. FCR 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. FCR has a total of \$1,145.7 million principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and secured credit facilities maturing between January 1, 2020 and December 31, 2022 at a weighted average coupon interest rate of 4.5%. If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, FCR's annual interest cost would respectively increase or decrease by \$11.5 million. In addition, as at December 31, 2019, FCR had \$296.1 million principal amount of debt (or 6% of FCR's aggregate debt as of such date) at floating interest rates.

First Capital 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, FCR 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 First Capital, may adversely affect a securityholder's ability to sell its senior unsecured debentures or other securities of FCR and may adversely affect FCR's access to financial markets and its cost of borrowing.

### **Acquisition, Expansion, Development, Redevelopment and Strategic Dispositions**

First Capital'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 FCR's financial position and results of operations and its ability to meet its obligations: (i) FCR may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties identified; (ii) FCR 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) FCR'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 FCR's total acquisition costs; (v) FCR'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, FCR'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 FCR's development commitments relate to properties intended for sale, such as the residential portion of certain projects, FCR is also subject to the risk that purchasers of such properties may become unable or unwilling to meet their obligations to FCR or that FCR may not be able to close the sale of a significant number of units in a development project on economically favourable terms.

In addition, FCR undertakes strategic property dispositions in order to recycle its capital and maintain an optimal portfolio composition. FCR may be subject to unexpected costs or liabilities related to such dispositions, which could adversely affect FCR'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 First Capital in seeking tenants. Some of the properties located in the same markets as FCR's properties may be newer, better located and/or have stronger anchor tenants than FCR's properties. The existence of developers, managers and owners in the markets in which FCR operates, or any increase in supply of available space in such markets (due to new construction, tenant insolvencies or other vacancy) and competition for FCR's tenants could adversely affect FCR'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 FCR that is not easily assessed. Any of the aforementioned factors could have an adverse effect on FCR's financial position and results of operations.

## Residential Development Sales and Leasing

First Capital 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 FCR'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, FCR 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 FCR'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

First Capital 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 FCR'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, FCR, 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 FCR knows of, or is responsible for, the environmental contamination and whether the contamination occurred before or after FCR 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 FCR's results of operations or financial position. The presence of contamination or the failure to remediate such substances, if any, may adversely affect FCR'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 FCR 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

First Capital has investments in properties with non-affiliated partners through partnership, co-ownership and limited liability corporate venture arrangements (collectively, "partnerships"). As a result, FCR 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 FCR's sole best interests. Accordingly, FCR may not be able to favourably resolve any issues that arise with respect to such decisions, or FCR may have to take legal action or provide financial or other inducements to partners to obtain such resolution. In addition, FCR may be exposed to risks resulting from the actions, omissions or financial situation of a partner, which may result in harm to FCR's reputation or adversely affect the value of FCR's investments.

## Investments Subject to Credit and Market Risk

First Capital provides co-owner financing, priority mortgages and mezzanine loans to third parties in connection with certain transactions and partnerships ("Loans and Mortgages Receivable"). First Capital also invests in marketable and other securities. FCR is exposed to customary risks in the event that the values of its Loans and Mortgages Receivable and/or its investments, in marketable and other securities, decrease due to overall market conditions, business failure, and/or other non-performance/defaults by the counterparties or investees. Not all lending activities will translate into acquisitions or equity participation in a project and the value of the assets securing FCR's Loans and Mortgages Receivable is dependent on real estate market conditions and in the event of a large market correction, their value may be unable to support the investments. There can also be no assurance FCR will advance new Loans and Mortgages Receivable at the same rate or in

the same amount repaid, which could negatively impact future earnings. Additionally, repayment of one or more of the current loans outstanding would result in an immediate decrease of FCR's Loans and Mortgages Receivable unless and until such time that FCR advances new loans.

## Climate Change

Changing weather patterns and other effects of climate change have created uncertainty as to future trends and weather conditions and could have an impact on FCR's properties, adversely impacting its results. First Capital's properties, tenants, and communities may become impacted by more severe weather events and natural disasters, including increases in storm intensity and rising water levels resulting in floods. Over time, these conditions could result in a decreased demand for space in FCR's impacted properties or, in extreme cases, it may impact FCR's ability to operate the properties at all. Climate change may also have indirect effects on First Capital's business by increasing the cost of (or making unavailable) property insurance on favourable terms, resulting in additional costs to repair or replace damaged properties or protect its properties against such risks, which could negatively impact FCR's earnings, liquidity or capital resources. The occurrence of natural disasters or severe weather conditions can also delay new development projects. In addition, compliance with new laws or regulations related to climate change may require First Capital to make improvements to its existing properties or increase taxes and fee assessments, which could result in declining demand for FCR's properties and increased expenses and may adversely affect operating and financial results.

## Cybersecurity

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of FCR's information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. As FCR's reliance on technology has increased, so have the risks posed to its systems. First Capital's primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to its reputation, damage to its business relationships with tenants as well as the disclosure of confidential information. Events such as these could adversely affect First Capital's financial position and results of operations.

## Cash Distributions Are Not Guaranteed

Distributions on the Trust Units are established by the Board of Trustees and are subject to change at the discretion of the Board of Trustees. While First Capital's distribution policy has been established pursuant to the Declaration of Trust and may only be changed with the approval of a majority of Unitholders, the actual amount of distributions paid in respect of the Trust Units will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of First Capital. The market value of the Trust Units will deteriorate if First Capital is unable to meet its distribution targets in the future, and that deterioration could be significant. In addition, the composition of the cash distributions for tax purposes may change over time and could affect the after-tax return for Unitholders.

## Unpredictability and Volatility of Trust Unit Price

A publicly-traded real estate investment trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Trust Units will trade cannot be predicted. The market price of the Trust Units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors. The annual yield on the Trust Units as compared to the annual yield on other financial instruments may also influence the price of the Trust Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Trust Units.



## **Mutual Fund Trust / Mutual Fund Corporation Status**

The Trust or its subsidiary First Capital Realty Inc. ("FCR Inc.") may not qualify as a "mutual fund trust" or a "mutual fund corporation" (as applicable) for purposes of the Tax Act, or it may cease to so qualify. If the Trust or FCR Inc. did not so qualify for such purposes continuously throughout a taxation year, it would be subject to adverse tax consequences which likely may materially reduce its ability to make distributions on the Trust Units. Furthermore, if the Trust or FCR Inc. was considered to have been established primarily for the benefit of non-resident persons, it would be permanently disqualified from qualifying as a "mutual fund trust" or a "mutual fund corporation" (as applicable) for such purposes.

## **REIT Status**

There is a risk (for example, as a result of an unanticipated event) that the Trust will not qualify (under the exception for real estate investment trusts from the rules applicable to SIFT trusts or SIFT partnerships in the Tax Act) as a "real estate investment trust" under the Tax Act for one or more of its taxation years. Were this to occur, the level of monthly cash distributions made on the Trust Units may be materially reduced. Furthermore, there is no assurance that the provisions of the Tax Act regarding the exemption afforded to REITs from the SIFT rules will not change in a manner that adversely impacts the Unitholders.



## CONSOLIDATED FINANCIAL STATEMENTS

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# Management's Responsibility

First Capital Real Estate Investment Trust'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 11, 2020.

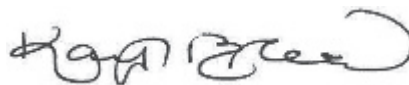
Management is also responsible for the maintenance of financial and operating systems, which include effective controls to provide reasonable assurance that First Capital's assets are safeguarded, transactions are properly authorized and recorded, and that reliable financial information is produced.

The Board of Trustees 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 Trustees who are not involved in the day-to-day operations of First Capital. Each quarter, the Audit Committee meets with Management and, as necessary, with the independent auditor, Ernst & Young LLP, to satisfy itself that Management's responsibilities are properly discharged and to review and report to the Board of Trustees on the consolidated financial statements.

In accordance with generally accepted auditing standards, the independent auditor conducts 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 11, 2020

# Independent Auditor's Report

To the Unitholders of  
**First Capital Real Estate Investment Trust**

## Opinion

We have audited the consolidated financial statements of First Capital Real Estate Investment Trust and its subsidiaries ("the Trust"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Trust as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of other information, we are required to report that fact to those charged with governance.

## Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, Management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

# Independent Auditor's Report

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

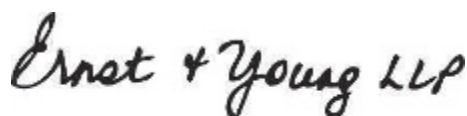
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kim Tang.



Chartered Professional Accountants  
Licensed Public Accountants

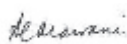
Toronto, Canada  
February 11, 2020

# Consolidated Balance Sheets

As at (thousands of dollars)	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Non-current Assets</b>			
<b>Real Estate Investments</b>			
Investment properties	5	\$ 9,593,530	\$ 9,682,614
Investment in joint ventures	6	59,498	144,375
Hotel property	7	62,199	58,604
Loans, mortgages and other assets	8	95,968	93,348
Total real estate investments		9,811,195	9,978,941
Other non-current assets	10	36,105	30,369
Total non-current assets		9,847,300	10,009,310
<b>Current Assets</b>			
Cash and cash equivalents	30(d)	25,503	15,534
Loans, mortgages and other assets	8	70,065	270,711
Residential development inventory		10,205	9,510
Amounts receivable	9	31,521	36,391
Other assets	10	18,166	25,938
		155,460	358,084
Investment properties classified as held for sale	5(d)	158,600	85,661
Total current assets		314,060	443,745
Total assets		\$ 10,161,360	\$ 10,453,055
<b>LIABILITIES</b>			
<b>Non-current Liabilities</b>			
Mortgages	12	\$ 1,242,055	\$ 1,164,804
Credit facilities	12	869,256	514,073
Senior unsecured debentures	13	2,322,214	2,297,387
Exchangeable Units	16	25,010	—
Other liabilities	15	24,844	20,838
Deferred tax liabilities	24	701,549	793,300
Total non-current liabilities		5,184,928	4,790,402
<b>Current Liabilities</b>			
Bank indebtedness	12	60	7,226
Mortgages	12	84,966	121,104
Credit facilities	12	29,909	112,099
Senior unsecured debentures	13	174,999	149,891
Accounts payable and other liabilities	15	210,992	264,261
Total current liabilities		500,926	654,581
Total liabilities		5,685,854	5,444,983
<b>EQUITY</b>			
Unitholders' / Shareholders' equity	17	4,426,592	4,978,242
Non-controlling interest	27	48,914	29,830
Total equity		4,475,506	5,008,072
Total liabilities and equity		\$ 10,161,360	\$ 10,453,055

Refer to accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees:



Al Mawani  
Trustee



Adam E. Paul  
Trustee



# Consolidated Statements of Income

<i>(thousands of dollars)</i>	Note	Year ended December 31	
		2019	2018
Property rental revenue		\$ 746,773	\$ 729,595
Property operating costs		286,376	274,822
<b>Net operating income</b>	19	<b>460,397</b>	454,773
<b>Other income and expenses</b>			
Interest and other income	20	33,049	26,429
Interest expense	21	(171,834)	(153,240)
Corporate expenses	22	(38,478)	(37,094)
Abandoned transaction costs		(677)	(177)
Amortization expense		(4,511)	(3,235)
Share of profit from joint ventures	6	1,699	30,411
Other gains (losses) and (expenses)	23	(8,759)	10,733
(Increase) decrease in value of Exchangeable Units	16	230	—
Increase (decrease) in value of investment properties, net	5	61,037	102,389
		<b>(128,244)</b>	(23,784)
<b>Income before income taxes</b>		<b>332,153</b>	430,989
Deferred income tax expense (recovery)	24	(82,187)	79,151
<b>Net income</b>		<b>\$ 414,340</b>	\$ 351,838
Net income attributable to:			
Unitholders / Shareholders	17	\$ 401,345	\$ 343,606
Non-controlling interest	27	12,995	8,232
		<b>\$ 414,340</b>	<b>\$ 351,838</b>

Refer to accompanying notes to the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

<i>(thousands of dollars)</i>	Note	Year ended December 31	
		2019	2018
<b>Net income</b>		\$ 414,340	\$ 351,838
<b>Other comprehensive income (loss)</b>			
Unrealized gain (loss) on revaluation of hotel property <sup>(1)</sup>	7	2,910	—
Unrealized gain (loss) on cash flow hedges <sup>(2)</sup>	29	(12,967)	(7,638)
Reclassification of net losses on cash flow hedges to net income	29	1,687	1,468
		<b>(8,370)</b>	<b>(6,170)</b>
Deferred tax expense (recovery)	24	<b>(5,056)</b>	<b>(1,642)</b>
Other comprehensive income (loss)		<b>(3,314)</b>	<b>(4,528)</b>
<b>Comprehensive income</b>		\$ 411,026	\$ 347,310
Comprehensive income attributable to:			
Unitholders / Shareholders	17	\$ 398,031	\$ 339,078
Non-controlling interest	27	12,995	8,232
		\$ 411,026	\$ 347,310

<sup>(1)</sup> Item that will not be reclassified to net income.

<sup>(2)</sup> Items that may subsequently be reclassified to net income.

Refer to accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Equity

<i>(thousands of dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Trust Units	Contributed Surplus and Other Equity Items	Total Unitholders' / Shareholders' Equity	Non-Controlling Interest	Total Equity
			<i>(Note 17(a))</i>	<i>(Note 17(a))</i>	<i>(Note 17(c))</i>			
<b>December 31, 2018</b>	<b>\$ 1,573,588</b>	<b>\$ (4,488)</b>	<b>\$ 3,364,948</b>	<b>\$ —</b>	<b>\$ 44,194</b>	<b>\$ 4,978,242</b>	<b>\$ 29,830</b>	<b>\$ 5,008,072</b>
Changes during the year:								
Net income	401,345	—	—	—	—	401,345	12,995	414,340
Dividends	(149,604)	—	—	—	—	(149,604)	—	(149,604)
Repurchase of common shares	(241,137)	—	(475,560)	—	(24,903)	(741,600)	—	(741,600)
Share repurchase costs, net of tax	—	—	(8,850)	—	—	(8,850)	—	(8,850)
Options, deferred share units, restricted share units, and performance share units, net	—	—	6,553	—	2,450	9,003	—	9,003
Other comprehensive income (loss)	—	(3,314)	—	—	—	(3,314)	—	(3,314)
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	—	6,089	6,089
REIT conversion <i>(Note 4)</i>	(7,085)	—	(2,887,091)	2,872,907	(21,741)	(43,010)	—	(43,010)
Distributions <i>(Note 17)</i>	(15,620)	—	—	—	—	(15,620)	—	(15,620)
<b>December 31, 2019</b>	<b>\$ 1,561,487</b>	<b>\$ (7,802)</b>	<b>\$ —</b>	<b>\$ 2,872,907</b>	<b>\$ —</b>	<b>\$ 4,426,592</b>	<b>\$ 48,914</b>	<b>\$ 4,475,506</b>

<i>(thousands of dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Trust Units	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
December 31, 2017	\$ 1,445,519	\$ 40	\$ 3,159,542	\$ —	\$ 41,970	\$ 4,647,071	\$ 48,613	\$ 4,695,684
Changes during the year:								
Net income	343,606	—	—	—	—	343,606	8,232	351,838
Issuance of common shares	—	—	200,019	—	—	200,019	—	200,019
Issue costs, net of tax	—	—	(6,169)	—	—	(6,169)	—	(6,169)
Dividends	(215,537)	—	—	—	—	(215,537)	—	(215,537)
Options, deferred share units, restricted share units, and performance share units, net	—	—	11,556	—	2,224	13,780	—	13,780
Other comprehensive income (loss)	—	(4,528)	—	—	—	(4,528)	—	(4,528)
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	—	(27,015)	(27,015)
December 31, 2018	\$ 1,573,588	\$ (4,488)	\$ 3,364,948	\$ —	\$ 44,194	\$ 4,978,242	\$ 29,830	\$ 5,008,072

Refer to accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

<i>(thousands of dollars)</i>	Note	Year ended December 31	
		2019	2018
<b>OPERATING ACTIVITIES</b>			
Net income		\$ 414,340	\$ 351,838
Adjustments for:			
(Increase) decrease in value of investment properties, net	5	(61,037)	(102,389)
Interest expense	21	171,834	153,240
Amortization expense		4,511	3,235
Share of profit of joint ventures	6	(1,699)	(30,411)
Cash interest paid associated with operating activities	21	(168,078)	(151,169)
Items not affecting cash and other items	30(a)	(78,153)	65,042
Net change in non-cash operating items	30(b)	(12,571)	(6,374)
Cash provided by (used in) operating activities		269,147	283,012
<b>FINANCING ACTIVITIES</b>			
Mortgage borrowings, net of financing costs	12	390,533	387,875
Mortgage principal instalment payments	12	(27,117)	(26,993)
Mortgage repayments	12	(222,740)	(134,971)
Credit facilities, net advances (repayments)	12	(572,585)	29,562
Unsecured term loans, net advances (repayments)	12	747,287	—
Issuance of senior unsecured debentures, net of issue costs	13	198,921	—
Repayment of senior unsecured debentures	13	(150,000)	(150,000)
Settlement of hedges		(7,269)	(149)
Repayment of convertible debentures	14(a)	—	(55,092)
Repurchase of common shares		(741,600)	—
Transaction costs related to share repurchase		(13,727)	—
Issuance of common shares, net of issue costs		4,241	201,749
Payment of dividends		(203,830)	(212,651)
Net contributions from (distributions to) non-controlling interest	27	6,089	(27,015)
Cash provided by (used in) financing activities		(591,797)	12,315
<b>INVESTING ACTIVITIES</b>			
Acquisition of investment properties	5(c)	(220,733)	(130,153)
Acquisition of development land	5(c)	(30,909)	(1,794)
Acquisition of Hotel property (net settled with loan repayment)	7	—	(2,052)
Net proceeds from property dispositions	5(d)	700,437	99,923
Distributions from joint ventures	6	25,648	110,924
Contributions to joint ventures	6	(17,481)	(25,067)
Capital expenditures on investment properties		(228,190)	(266,355)
Changes in investing-related prepaid expenses and other liabilities		(41,607)	13,790
Changes in loans, mortgages and other assets	30(c)	145,454	(90,516)
Cash provided by (used in) investing activities		332,619	(291,300)
Net increase (decrease) in cash and cash equivalents		9,969	4,027
Cash and cash equivalents, beginning of year		15,534	11,507
Cash and cash equivalents, end of year	30(d)	\$ 25,503	\$ 15,534

Refer to accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1. DESCRIPTION OF THE TRUST

First Capital Real Estate Investment Trust ("First Capital", "FCR", or the "Trust") is an unincorporated, open-ended mutual fund trust governed by the laws of Ontario, Canada, and established pursuant to a declaration of trust dated October 16, 2019, as may be amended from time to time (the "Declaration of Trust"). First Capital engages in the business of acquiring, developing, redeveloping, owning and managing well-located, mixed-use urban real estate in Canada's most densely populated neighbourhoods. The Trust is listed on the Toronto Stock Exchange ("TSX") under the symbol "FCR.UN", and its head office is located at 85 Hanna Avenue, Suite 400, Toronto, Ontario, M6K 3S3.

Effective December 30, 2019, First Capital Realty Inc. (the "Company") completed its Plan of Arrangement (the "Arrangement") to convert into a real estate investment trust ("REIT"). Under the Arrangement, Shareholders of the Company received one trust unit ("Trust Unit") or one Class B Limited Partnership Unit ("Exchangeable Unit") of a controlled limited partnership of the Trust, for each common share of the Company held. Consequently, any references to common shares, Shareholders and per share amounts relate to periods prior to the conversion on December 30, 2019 and any references to Trust Units, Unitholders and per unit amounts relate to periods subsequent to December 30, 2019. Since the Trust is a continuation of First Capital Realty Inc., the prior year comparatives included in these audited annual consolidated financial statements are those of the Company.

## 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".

Additionally, Management, in measuring the Trust's performance or making operating decisions, distinguishes its operations on a geographical basis. First Capital operates in Canada and has three operating segments: Eastern, which includes operations primarily in Quebec and Ottawa; Central, which includes the Trust'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 Trustees and authorized for issue on February 11, 2020.

### (c) Basis of consolidation

The consolidated financial statements include the financial statements of the Trust as well as the entities that are controlled by the Trust (subsidiaries). The Trust controls an entity when the Trust 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 Trust. They are deconsolidated from the date that control ceases. Inter-company transactions, balances and other transactions between consolidated entities are eliminated.

#### **(d) Trust Units**

First Capital's Trust Units are redeemable at the option of the holder, and, therefore, are considered puttable instruments in accordance with IAS 32, "Financial Instruments – Presentation" ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity.

To be presented as equity, a puttable instrument must meet all of the following conditions: (i) it must entitle the holder to a pro-rata share of the entity's net assets in the event of the entity's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) above must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instrument must be based substantially on the profit or loss of the entity or change in the fair value of the instrument.

The Trust Units meet the conditions of IAS 32 and, accordingly, are presented as equity in the consolidated financial statements.

#### *Earnings per Unit*

As First Capital's Trust Units are puttable instruments and, therefore, financial liabilities, they may not be considered as equity for the purposes of calculating net income on a per unit basis under IAS 33, "Earnings per Share". Consequently, the Trust has not reported earnings per unit.

#### **(e) Exchangeable Units**

The Class B Limited Partnership Units of First Capital REIT Limited Partnership are exchangeable, at the option of the holder, into Trust Units. The Exchangeable Units are considered a financial liability as there is a contractual obligation for First Capital to deliver Trust Units (which as noted in Note 2(d) are puttable instruments) upon exchange. Exchangeable Units are required to be classified as financial liabilities at fair value through profit or loss ("FVTPL"). The distributions declared on the Exchangeable Units are accounted for as interest expense.

#### **(f) Business combinations**

At the time of acquisition of property, First Capital considers whether the acquisition represents the acquisition of a business. The Trust 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 Trust recognizes any contingent consideration to be transferred by the Trust 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.

#### **(g) Investments in joint arrangements**

First Capital accounts for its investment in joint ventures using the equity method and accounts for investments in joint operations by recognizing the Trust'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 Trust's share of the net assets of the joint ventures, less distributions received and less any impairment in the value of individual investments. First Capital's income statement reflects its share of the results of operations of the joint ventures after tax, if applicable.



## **(h) Investment properties**

Investment properties consist of income-producing properties 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 Trust is the lessee. The Trust classifies its investment properties on its consolidated balance sheets as follows:

### *(i) Investment properties*

#### *Investment properties:*

Investment properties include First Capital's income producing portfolio, properties currently under development or redevelopment, and any adjacent land parcels available for expansion but not currently under development.

#### *Development land:*

Development land includes land parcels which are not part of one of First Capital's existing investment properties and which are at various stages of development planning, primarily for future retail or mixed-use occupancy.

### *(ii) 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.

First Capital'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 a certified staff appraiser employed by the Trust, 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**

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

Investment properties that are income producing 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).

#### *(ii) Properties under development*

Properties undergoing development, redevelopment or expansion are valued either (i) using the discounted cash flow method, with a deduction for costs to complete the project, or (ii) at cost, when cost approximates fair value. 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 First Capital'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 Trust 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 Trust makes no adjustments for portfolio premiums and discounts, nor for any value attributable to the Trust's management platform.

### **(i) Hotel property**

First Capital accounts for its hotel property as property, plant and equipment under the revaluation model. Hotel property is recognized initially at fair value if acquired in a business combination and is subsequently carried at fair value at the revaluation date less any accumulated impairment and subsequent accumulated amortization. The Trust amortizes these assets on a straight-line basis over their relevant estimated useful lives. The estimated useful lives of the assets range from 3 to 40 years. The fair value of the hotel property is based on an income approach and determined using a discounted cash flow model.

Revaluation of the hotel property is performed annually at December 31, the end of the fiscal year. Where the carrying amount of an asset is increased as a result of a revaluation, the increase is recognized in other comprehensive income (loss) ("OCI") and accumulated in equity within revaluation surplus, unless the increase reverses a previously recognized revaluation loss recorded through prior period net income, in which case that portion of the increase is recognized in net income. Where the carrying amount of an asset is decreased, the decrease is recognized in OCI to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder recognized in net income. Revaluation gains are recognized in OCI, and are not subsequently recycled into profit or loss. The cumulative revaluation surplus is transferred directly to retained earnings when the asset is derecognized.

The revenue and operating expenses of the hotel property are included within net operating income in First Capital's consolidated statements of income.

### **(j) 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 Trust's other borrowings to eligible expenditures. Borrowing costs are not capitalized on residential development inventory where no development activity is taking place.

Transfers into residential inventory are based on a change in use, evidenced by the commencement of development activities with a view to sell, at which point an investment property would be transferred to inventory. Transfers from residential inventory to investment property are based on a change in use evidenced by Management's commitment to use the property for rental income purposes and the establishment of an operating lease.

### **(k) Taxation**

First Capital qualifies as a mutual fund trust under the *Income Tax Act* (Canada)(the "Act"). The Trust qualifies for the REIT Exemption and, as such, the Trust itself will not be subject to income taxes provided it continues to qualify as a REIT for purposes of the Act. A REIT is not taxable and not considered to be a Specified Investment Flow-Through Trust provided it complies with certain tests and distributes all of its taxable income in a taxation year to its unitholders. The Trust is a flow-through vehicle and accounts only for income taxes pertaining to its corporate subsidiaries. The Trust's most significant corporate subsidiary, First Capital Realty Inc., is a mutual fund corporation ("MFC").

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.

### **(l) Provisions**

A provision is a liability of uncertain timing or amount. First Capital 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.

### **(m) Unit-based Compensation Plans**

Unit Options, Restricted Units (“RUs”), Performance Units (“PUs”), and Trustee Deferred Units (“DUs”) are issued by First Capital from time to time as non-cash compensation. These unit-based compensation plans are measured at fair value at the grant date and compensation expense is recognized in the consolidated statements of income consistent with the vesting features of each plan. The unit-based compensation plans are accounted for as cash-settled awards as the Trust is an open-ended trust making its units redeemable, and thus requiring outstanding Unit Options, RUs, PUs and DUs to be recognized as a liability and carried at fair value. The liability is adjusted for changes in fair value with such adjustments being recognized as compensation expense in the consolidated statements of income in the period in which they occur. The liability balance is reduced as Unit Options are exercised or RUs, PUs and DUs are settled for Trust Units and recorded in equity.

### **(n) Share-based payments**

Prior to Conversion to a REIT, equity-settled share-based compensation, including stock options, restricted share units, performance share units and deferred share units, was measured at the fair value of the grants on the grant date. The cost of equity-settled share-based compensation was recognized in the consolidated statements of income consistent with the vesting features of each grant.

### **(o) Revenue recognition**

First Capital 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 Trust 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.

First Capital's revenues are earned from lease contracts with tenants and include both a lease component and a non-lease component.

Base rent, straight-line rent, realty tax recoveries, lease surrender fees and percentage rent are considered lease components and are in the scope of IFRS 16, “Leases” (“IFRS 16”).

The total amount of contractual base 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.

Realty tax recoveries are variable recoveries relating to the leased property and do not transfer a good or service to the lessee and as a result are recognized as costs are incurred and chargeable to tenants.

Lease surrender fees are earned from tenants in connection with the cancellation or early termination of their remaining lease obligations, and is recognized when a lease termination agreement is signed and collection is reasonably assured.

Percentage rents are recognized when the sales thresholds set out in the leases have been met.

Operating cost recoveries relate to the property management services provided to maintain the property and are considered non-lease components subject to the guidance in IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15"). The property management services are considered a performance obligation, meeting the criteria for over time recognition and are recognized in the period that recoverable costs are incurred or services are performed.

### **(p) Financial instruments and derivatives**

In accordance with IFRS 9, "Financial Instruments" ("IFRS 9") 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 FVTPL, fair value through other comprehensive income ("FVOCI") or amortized cost.

Derivative instruments are recorded in the consolidated balance sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts.

First Capital 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 U.S. 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 OCI while the portion considered to be ineffective is recognized in net income. Unrealized hedging gains and losses in accumulated other comprehensive income ("AOCI") are reclassified to net income in the periods when the hedged item affects net income. Gains and losses on derivatives are immediately reclassified to net income when the hedged item is sold or terminated or when it is determined that a hedged forecasted transaction is no longer probable.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued**

The following summarizes the Trust’s classification and measurement of financial assets and liabilities:

	December 31, 2019	December 31, 2018
	Classification & Measurement	Classification & Measurement
<b>Financial assets</b>		
Other investments	FVTPL	FVTPL
Derivative assets	FVTPL	FVTPL
Loans and mortgages receivable	Amortized Cost	Amortized Cost
Loans and mortgages receivable <sup>(1)</sup>	FVTPL	FVTPL
Equity securities designated as FVTPL	FVTPL	FVTPL
Amounts receivable	Amortized Cost	Amortized Cost
Cash and cash equivalents	Amortized Cost	Amortized Cost
Restricted cash	Amortized Cost	Amortized Cost
Bond asset	Amortized Cost	N/A
<b>Financial liabilities</b>		
Bank indebtedness	Amortized Cost	Amortized Cost
Mortgages	Amortized Cost	Amortized Cost
Credit facilities	Amortized Cost	Amortized Cost
Senior unsecured debentures	Amortized Cost	Amortized Cost
Exchangeable Units	FVTPL	N/A
Accounts payable and other liabilities	Amortized Cost	Amortized Cost
Unit-based compensation plans	FVTPL	N/A
Derivative liabilities	FVTPL	FVTPL

<sup>(1)</sup> The Loans whose cash flows are not solely payments of principal or interest are classified as FVTPL.

In determining fair values, the Trust 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 as follows:

- (i) Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Trust has the ability to access at the measurement date. The Trust’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 Trust’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 Trust’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 Trust’s own data. The Trust’s loans and mortgages receivable classified as FVTPL and other investments are measured using Level 3 inputs.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Trust determines whether transfers have occurred between levels in the hierarchy by reassessing 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.

**(q) Cash and cash equivalents**

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



## **(r) Critical judgments in applying accounting policies**

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

### *(i) Investment properties*

In applying the Trust'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 Trust 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*

First Capital retains its REIT status if it meets the prescribed conditions under the Act. Management uses judgment in its interpretation and application of these conditions. First Capital determined that it qualifies as a REIT for the current period and expects to meet the prescribed conditions going forward. However, should the Trust no longer meet the REIT conditions, substantial adverse tax consequences may result.

With respect to its corporate subsidiaries, the Trust 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 Trust reflects the Trust's interpretation of the relevant tax laws. The Trust 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.

## **(s) Critical accounting estimates and assumptions**

First Capital 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 Trust considers critical include those underlying the valuation of investment properties, as set out above, which describes the process by which investment properties are valued, and the determination of which properties are externally and internally appraised and how often.

Additional critical accounting estimates and assumptions include those used for determining the values of financial instruments for disclosure purposes (Note 26), estimating deferred taxes, and estimating the fair value of unit-based compensation arrangements (Note 18).

### 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

#### IFRS Amendments

First Capital adopted the following IFRS pronouncements listed below as of January 1, 2019, in accordance with their respective transitional provisions.

#### *Leases*

In January 2016, the IASB issued IFRS 16, replacing IAS 17, "*Leases*" and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases.

#### **Impact upon adoption of IFRS 16**

FCR has applied the new standard using the full retrospective method. Upon adoption, there was no significant impact to its consolidated financial statements as leases with tenants continue to be accounted for as operating leases under IFRS 16.

#### *Uncertainty over income tax treatments*

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, "*Uncertainty over Income Tax Treatments*" ("IFRIC 23"), which clarifies how the recognition and measurement requirements of IAS 12, "*Income Taxes*", are applied where there is uncertainty over income tax treatments.

#### **Impact upon adoption of IFRIC 23**

There was no impact to First Capital's consolidated financial statements on adoption of these amendments.

## 4. REIT CONVERSION

On December 30, 2019, the Plan of Arrangement to convert the Company into a publicly traded real estate investment trust was completed. The adjustments recorded effective December 30, 2019 related to First Capital's conversion to a REIT are as follows:

### (a) Conversion of publicly traded common shares

Under the terms of the Arrangement, each outstanding common share of the Company was exchanged for one Trust Unit, unless a qualifying Shareholder elected to receive an Exchangeable Unit.

#### *Exchangeable Units*

Effective December 30, 2019, 1,209,965 Exchangeable Units were issued and approximately \$16.0 million was reclassified from share capital to Exchangeable Units, a liability on the consolidated balance sheet. The Exchangeable Units were recorded at fair value based on the closing price of the Company's common shares on December 27, 2019, the last trading day prior to completion of the Arrangement and a fair value loss of \$9.3 million was recorded through retained earnings.

#### *Trust Units*

First Capital issued 217,953,899 Trust Units under the Arrangement. Approximately \$2.9 billion was reclassified from share capital to Trust Unit capital within unitholders' equity.

### (b) Conversion of non-cash compensation plans

Pursuant to the Arrangement, all grants outstanding under the stock option plan and share unit plans were transferred on a one-to-one basis to unit-based compensation plans. Upon conversion, the unit-based compensation plans are now accounted for in accordance with Note 2(m) and approximately \$21.7 million was reclassified from other equity items to liabilities on the consolidated balance sheet. The unit-based compensation plans were recorded at fair value and a fair value gain of \$2.5 million was recorded through retained earnings, resulting in a total liability of \$19.2 million upon conversion. The fair value of the unit-based compensation plans was calculated using the Black-Scholes model for unit options, a Monte-Carlo simulation model for the PSUs and the closing price of the Company's common shares on December 27, 2019 for the RSUs and DSUs.

### (c) Impact on deferred income taxes

Effective December 30, 2019, First Capital recorded the derecognition of a portion of its deferred tax liability to reflect the tax structure of the REIT and its subsidiaries following the conversion under the Arrangement. The net adjustment to the deferred tax liability of \$160.9 million was recorded in the consolidated statements of income.

## 5. INVESTMENT PROPERTIES

### (a) Activity

The following tables summarize the changes in First Capital's investment properties for the year ended December 31, 2019 and year ended December 31, 2018:

					Year ended December 31, 2019	
	Central Region	Eastern Region	Western Region	Total	Investment Properties <sup>(2)</sup>	Development Land
Balance at beginning of year	\$ 4,489,359	\$ 2,037,411	\$ 3,241,505	\$ 9,768,275	\$ 9,690,179	\$ 78,096
Acquisitions	376,700	—	15,410	392,110	361,201	30,909
Capital expenditures	157,955	26,678	43,557	228,190	220,302	7,888
Consolidation of equity accounted joint venture <sup>(1)</sup>	131,480	—	—	131,480	131,480	—
Increase (decrease) in value of investment properties, net	83,274	(5,486)	(16,751)	61,037	60,499	538
Straight-line rent and other changes	4,193	1,212	607	6,012	6,012	—
Dispositions	(96,427)	(524,382)	(214,165)	(834,974)	(809,542)	(25,432)
Balance at end of year	\$ 5,146,534	\$ 1,535,433	\$ 3,070,163	\$ 9,752,130	\$ 9,660,131	\$ 91,999
Investment properties					\$ 9,501,531	\$ 91,999
Investment properties classified as held for sale					158,600	—
Total					\$ 9,660,131	\$ 91,999

					Year ended December 31, 2018	
	Central Region	Eastern Region	Western Region	Total	Investment Properties <sup>(2)</sup>	Development Land
Balance at beginning of year	\$ 4,263,757	\$ 1,980,077	\$ 3,152,525	\$ 9,396,359	\$ 9,317,306	\$ 79,053
Acquisitions	80,371	5,680	45,896	131,947	130,153	1,794
Capital expenditures	171,586	34,580	60,189	266,355	258,813	7,542
Reclassifications between investment properties and development land	—	—	—	—	10,742	(10,742)
Increase (decrease) in value of investment properties, net	48,506	18,931	30,952	98,389	87,792	10,597
Straight-line rent and other changes	139	4,218	2,883	7,240	8,388	(1,148)
Dispositions	(75,000)	(6,075)	(50,940)	(132,015)	(123,015)	(9,000)
Balance at end of year	\$ 4,489,359	\$ 2,037,411	\$ 3,241,505	\$ 9,768,275	\$ 9,690,179	\$ 78,096
Investment properties					\$ 9,623,905	\$ 58,709
Investment properties classified as held for sale					66,274	19,387
Total					\$ 9,690,179	\$ 78,096

<sup>(1)</sup> See Note 6.

<sup>(2)</sup> Investment properties include income producing properties as well as properties under development.

Investment properties with a fair value of \$2.8 billion (December 31, 2018 – \$3.0 billion) are pledged as security for \$1.5 billion (December 31, 2018 – \$1.4 billion) in mortgages and secured credit facilities.

## (b) Investment property valuation

Stabilized overall capitalization, terminal, and discount rates by region for investment properties valued under the discounted cash flow method are set out in the table below:

As at	December 31, 2019				December 31, 2018			
	Weighted Average				Weighted Average			
	Central Region	Eastern Region	Western Region	Total	Central Region	Eastern Region	Western Region	Total
Overall Capitalization Rate	4.7%	5.8%	5.1%	5.0%	5.0%	5.9%	5.2%	5.3%
Terminal Capitalization Rate	5.0%	6.1%	5.4%	5.3%	5.2%	6.2%	5.4%	5.5%
Discount Rate	5.5%	6.6%	5.9%	5.8%	5.7%	6.8%	6.0%	6.1%

The sensitivity of the fair values of investment properties to stabilized overall capitalization rates as at December 31, 2019 is set out in the table below:

As at December 31, 2019	(millions of dollars)
(Decrease) Increase in stabilized overall capitalization rate	Resulting increase (decrease) in fair value of investment properties
(0.75%)	\$ 1,629
(0.50%)	\$ 1,026
(0.25%)	\$ 486
0.25%	\$ (440)
0.50%	\$ (841)
0.75%	\$ (1,207)

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in a \$93 million increase or a \$93 million decrease, respectively, in the fair value of investment properties. 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 investment properties of \$584 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 investment properties of \$529 million.

## (c) Investment properties – Acquisitions

During the years ended December 31, 2019 and 2018, First Capital acquired investment properties and development land for rental income and future development and redevelopment opportunities as follows:

Year ended December 31	2019		2018	
	Investment Properties	Development Land	Investment Properties	Development Land
Total purchase price, including acquisition costs	\$ 361,201	\$ 30,909	\$ 130,153	\$ 1,794
Debt assumption on acquisition	(50,646)	—	—	—
Settlement of loans receivable on acquisition	(89,822)	—	—	—
Total cash paid	\$ 220,733	\$ 30,909	\$ 130,153	\$ 1,794

**(d) Investment properties classified as held for sale**

First Capital 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, 2019	December 31, 2018
Aggregate fair value	\$ 158,600	\$ 85,661

The increase of \$72.9 million in investment properties classified as held for sale from December 31, 2018, primarily arose from new investment properties classified as held for sale, in line with First Capital's super urban strategy, offset by dispositions completed in the period and changes in fair value.

For the years ended December 31, 2019 and 2018, First Capital sold investment properties and development land as follows:

	Year ended December 31	
	2019	2018
Total selling price	\$ 834,974	\$ 132,015
Mortgages assumed and vendor take-back mortgage on sale	(128,156)	(29,536)
Property selling costs	(6,381)	(2,556)
Total cash proceeds	\$ 700,437	\$ 99,923

**(e) Reconciliation of investment properties to total assets**

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

As at December 31, 2019	Central Region	Eastern Region	Western Region	Total
Total investment properties and development land <sup>(1)</sup>	\$ 5,146,534	\$ 1,535,433	\$ 3,070,163	\$ 9,752,130
Cash and cash equivalents				25,503
Loans, mortgages and other assets				166,033
Other assets				54,271
Amounts receivable				31,521
Investment in joint ventures				59,498
Hotel property				62,199
Residential development inventory				10,205
Total assets				\$ 10,161,360

<sup>(1)</sup> Includes investment properties classified as held for sale.

As at December 31, 2018	Central Region	Eastern Region	Western Region	Total
Total investment properties and development land <sup>(1)</sup>	\$ 4,489,359	\$ 2,037,411	\$ 3,241,505	\$ 9,768,275
Cash and cash equivalents				15,534
Loans, mortgages and other assets				364,059
Other assets				56,307
Amounts receivable				36,391
Investment in joint ventures				144,375
Hotel property				58,604
Residential development inventory				9,510
Total assets				\$ 10,453,055

<sup>(1)</sup> Includes investment properties classified as held for sale.



## 6. INVESTMENT IN JOINT VENTURES

As at December 31, 2019, First Capital had interests in six joint ventures that it accounts for using the equity method. The Trust's joint ventures are as follows:

Name of Entity	Name of Property/Business Activity	Location	Effective Ownership	
			December 31, 2019	December 31, 2018
M+M Urban Realty LP ("MMUR") <sup>(1)</sup>	Commercial/residential properties <sup>(2)</sup>	Toronto, ON	N/A	53.1%
College Square General Partnership	College Square	Ottawa, ON	50.0%	50.0%
Green Capital Limited Partnership	Royal Orchard	Markham, ON	50.0%	50.0%
Stackt Properties LP	Shipping Container marketplace	Toronto, ON	94.0%	94.0%
Fashion Media Group GP Ltd.	Toronto Fashion Week events	Toronto, ON	78.0%	72.0%
FC Access LP	Whitby Mall (self storage operation)	Whitby, ON	25.0%	N/A
Edenbridge Kingsway (Humbertown)	Humbertown Condos (Phase 1)	Toronto, ON	50.0%	N/A

<sup>(1)</sup> MMUR was an equity accounted joint venture between the Trust, Main and Main Developments LP ("MMLP") and an institutional investor. On July 22, 2019, FCR and its partner acquired the remaining 46.9% interest in MMUR from the institutional investor.

<sup>(2)</sup> As at December 31, 2019 and December 31, 2018, MMUR owned 4 properties.

First Capital has determined that these investments are joint ventures as all decisions regarding their activities are made unanimously between the Trust and its partners.

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

As at	December 31, 2019	December 31, 2018
Total assets	\$ 200,631	\$ 432,365
Total liabilities	(64,553)	(136,701)
Net assets at 100%	136,078	295,664
<b>First Capital's investment in equity accounted joint ventures</b>	<b>\$ 59,498</b>	<b>\$ 144,375</b>

For the year ended	December 31, 2019	December 31, 2018
Property revenue	\$ 16,496	\$ 18,222
Property expenses	(8,338)	(6,374)
Increase in value of investment properties, net	532	41,919
Other income and expenses	236	(4,856)
<b>Income before income taxes</b>	<b>8,926</b>	<b>48,911</b>
Current income tax expense (recovery)	1	(7)
Net income and total comprehensive income at 100%	\$ 8,925	\$ 48,918
<b>First Capital's share of income in equity accounted joint ventures</b>	<b>\$ 1,699</b>	<b>\$ 30,411</b>

During the third quarter, First Capital, together with its partner in MMLP acquired the remaining 46.9% interest in four remaining MMUR assets for approximately \$116.0 million. As a result, FCR now controls MMUR through its direct and indirect interests (further described in Note 27), requiring the consolidation of the assets, liabilities, revenues and expenses of MMUR from the date of acquisition.

During 2019, First Capital received distributions from its joint ventures of \$25.6 million (2018 – \$110.9 million) and made contributions to its joint ventures of \$17.5 million (2018 – \$25.1 million).

As at December 31, 2019, there were no outstanding commitments or contingent liabilities for the six equity accounted joint ventures.

## 7. HOTEL PROPERTY

First Capital owns a 60% non-managing interest in the Hazelton Hotel ("hotel property") located in Toronto, Ontario. The hotel property is a mixed-use luxury hotel located in Yorkville Village.

The following table summarizes the changes in the net book value of the hotel property for the years ended December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Hotel property, beginning balance	\$ 58,604	\$ —
Acquisition		59,017
Revaluation of hotel property	2,910	—
Additions	1,378	—
Amortization	(693)	(413)
Hotel property, ending balance	\$ 62,199	\$ 58,604

On July 4, 2018, First Capital paid a total purchase price before closing costs of \$45.0 million. The following table summarizes the allocation of the purchase price to the fair value of each major asset acquired and net liability assumed as at the acquisition date.

Land and Building	\$ 58,800
Furniture, Fixtures & Equipment	217
Working capital, net	641
Identifiable assets acquired	59,658
Deferred tax liability	(643)
Purchase price for net assets acquired	(45,040)
Gain on below market purchase	\$ 13,975

## 8. LOANS, MORTGAGES AND OTHER ASSETS

As at	December 31, 2019	December 31, 2018
<b>Non-current</b>		
Loans and mortgages receivable classified as FVTPL (a)	\$ 20,726	\$ 20,511
Loans and mortgages receivable classified as amortized cost (a)(b)	58,940	57,003
Other investments	16,302	15,834
Total non-current	\$ 95,968	\$ 93,348
<b>Current</b>		
Loans and mortgages receivable classified as FVTPL (a)	\$ 132	\$ 87,106
Loans and mortgages receivable classified as amortized cost (a)(b)	65,984	160,043
FVTPL investments in securities (c)	3,949	23,562
Total current	\$ 70,065	\$ 270,711
Total	\$ 166,033	\$ 364,059

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at December 31, 2019, these receivables bear interest at weighted average effective interest rates of 6.6% (December 31, 2018 – 9.7%) and mature between 2020 and 2028.

(b) During the third quarter, approximately \$131.3 million of mortgages receivable were fully repaid related to First Capital's priority ranking mortgages on a development project at the southwest corner of Yonge Street and Bloor Street in Toronto, Ontario.

(c) From time to time, First Capital invests 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 and the weighted average effective floating or fixed interest rates as at December 31, 2019 are as follows:

	Scheduled Receipts	Weighted Average Effective Interest Rate
2020	\$ 63,293	7.1%
2021	31,492	7.0%
2022	22,328	5.8%
2023	1,926	6.2%
2024	5,000	5.0%
2025 to 2028	18,800	5.5%
	\$ 142,839	6.6%
Unamortized deferred financing fees and accrued interest	2,943	
	\$ 145,782	
Current	\$ 66,116	7.1%
Non-current	79,666	6.2%
Total	\$ 145,782	6.6%

## 9. AMOUNTS RECEIVABLE

As at	December 31, 2019	December 31, 2018
Trade receivables (net of allowances for doubtful accounts of \$3.0 million; December 31, 2018 – \$2.5 million)	\$ 25,356	\$ 30,862
Corporate and other amounts receivable	6,165	5,529
Total	\$ 31,521	\$ 36,391

First Capital determines its allowance for doubtful accounts on a tenant-by-tenant basis considering lease terms, industry conditions, and the status of the tenant's account, among other factors.

## 10. OTHER ASSETS

As at	Note	December 31, 2019	December 31, 2018
<b>Non-current</b>			
Fixtures, equipment and computer hardware and software (net of accumulated amortization of \$15.6 million; December 31, 2018 – \$10.1 million)		\$ 11,670	\$ 13,352
Deferred financing costs on credit facilities (net of accumulated amortization of \$5.3 million; December 31, 2018 – \$4.5 million)		3,886	2,327
Environmental indemnity and insurance proceeds receivable	15(a)	3,105	4,707
Bond asset (a)		14,513	—
Derivatives at fair value	26	2,931	9,983
<b>Total non-current</b>		<b>\$ 36,105</b>	<b>\$ 30,369</b>
<b>Current</b>			
Deposits and costs on investment properties under option		\$ 5,691	\$ 6,080
Prepaid expenses		9,088	6,535
Other deposits		250	316
Restricted cash		765	462
Derivatives at fair value	26	2,372	12,545
<b>Total current</b>		<b>\$ 18,166</b>	<b>\$ 25,938</b>
<b>Total</b>		<b>\$ 54,271</b>	<b>\$ 56,307</b>

(a) During the fourth quarter, First Capital completed an in-substance defeasance of one of its mortgages, that matures January 1, 2021.

## 11. CAPITAL MANAGEMENT

First Capital manages its capital, taking into account the long-term business objectives of the Trust, to provide stability and reduce risk while generating an acceptable return on investment to Unitholders over the long term. The Trust's capital structure currently includes Trust Units, Exchangeable Units, senior unsecured debentures, mortgages, credit facilities, bank term loans and bank indebtedness, which together provide First Capital with financing flexibility to meet its capital needs. Primary uses of capital include reducing debt levels, development activities, acquisitions, capital improvements and leasing costs. 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, property and capital market conditions and Management's general view of the required leverage in the business.

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

As at	December 31, 2019	December 31, 2018
<b>Liabilities (principal amounts outstanding)</b>		
Bank indebtedness	\$ 60	\$ 7,226
Mortgages	1,331,219	1,287,247
Credit facilities	899,165	626,172
Mortgages under equity accounted joint ventures (at the Trust's interest)	40,144	41,081
Credit facilities under equity accounted joint venture (at the Trust's interest)	—	34,135
Exchangeable Units (based on a closing per unit price of \$20.67 at December 31, 2019)	25,010	—
Senior unsecured debentures	2,500,000	2,450,000
<b>Equity Capitalization</b>		
Common Shares (based on closing per share price of \$18.85 at December 31, 2018)	N/A	4,803,505
Trust Units (based on closing per unit price of \$20.67 at December 31, 2019)	4,505,107	N/A
<b>Total capital employed</b>	<b>\$ 9,300,705</b>	<b>\$ 9,249,366</b>

First Capital is subject to financial covenants in agreements governing its senior unsecured debentures and its credit facilities. In accordance with the terms of the Trust's credit agreements, all ratios are calculated with joint ventures proportionately consolidated. As at December 31, 2019, First Capital remains in compliance with all of its applicable financial covenants.

The following table summarizes a number of First Capital's key ratios:

As at	Measure/ Covenant	December 31, 2019	December 31, 2018
Net debt to total assets		46.7%	42.1%
Unencumbered aggregate assets to unsecured debt, using 10 quarter average capitalization rate <sup>(1)</sup>	≥1.3	2.0	2.3
Unitholders' / Shareholders' equity, using four quarter average (billions) <sup>(1)</sup>	>\$2.0B	\$ 4.5	\$ 4.8
Secured indebtedness to total assets <sup>(1)</sup>	<35%	14.5%	14.0%
<b>For the rolling four quarters ended</b>			
Interest coverage (Adjusted EBITDA to interest expense) <sup>(1)</sup>	>1.65	2.4	2.5
Fixed charge coverage (Adjusted EBITDA to debt service) <sup>(1)</sup>	>1.50	2.1	2.2

<sup>(1)</sup> Calculations required under the Trust'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;
- 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, Exchangeable Units and unit-based compensation; other gains (losses) and (expenses); and other non-cash or non-recurring items. The Trust 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;
- 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 bank term loans, unsecured credit facilities, and senior unsecured debentures.

## 12. MORTGAGES AND CREDIT FACILITIES

As at	December 31, 2019	December 31, 2018
Fixed rate mortgages	\$ 1,327,021	\$ 1,285,908
Unsecured facilities	772,030	503,005
Secured facilities	127,135	123,167
Mortgages and credit facilities	\$ 2,226,186	\$ 1,912,080
Current	\$ 114,875	\$ 233,203
Non-current	2,111,311	1,678,877
Total	\$ 2,226,186	\$ 1,912,080

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued**

Mortgages and secured facilities are secured by First Capital's investment properties. As at December 31, 2019, approximately \$2.8 billion (December 31, 2018 – \$3.0 billion) of investment properties out of \$9.8 billion (December 31, 2018 – \$9.8 billion) (Note 5(a)) had been pledged as security under the mortgages and the secured facilities.

As at December 31, 2019, mortgages bear coupon interest at a weighted average coupon rate of 3.7% (December 31, 2018 – 4.0%) and mature in the years ranging from 2020 to 2031. The weighted average effective interest rate on all mortgages as at December 31, 2019 is 3.7% (December 31, 2018 – 4.0%).

Principal repayments of mortgages outstanding as at December 31, 2019 are as follows:

	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2020	\$ 28,399	\$ 56,875	\$ 85,274	4.8%
2021	28,424	73,437	101,861	4.8%
2022	29,700	95,522	125,222	4.0%
2023	29,791	—	29,791	N/A
2024	29,062	108,478	137,540	3.7%
2025 to 2031	104,813	746,718	851,531	3.5%
	\$ 250,189	\$ 1,081,030	\$ 1,331,219	3.7%
Unamortized deferred financing costs and premiums, net			(4,198)	
<b>Total</b>			\$ 1,327,021	

First Capital 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. Concurrently with the U.S. dollar draws, the Trust enters into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

On April 16, 2019, the Company completed the share repurchase of 36,000,000 common shares from a subsidiary of Gazit-Globe Ltd. ("Gazit") at a price of \$20.60 per share for gross proceeds to Gazit of \$741.6 million. To fund the share repurchase and other operational needs, FCR entered into \$850 million of senior unsecured bank term loans with maturities ranging from 4 - 7 years. Concurrent with funding, the majority of the unsecured bank term loans were swapped to fixed rates bearing a weighted average interest rate of 3.3% with a weighted average term to maturity of 5.8 years. The remaining debt bears interest at a floating rate and can be repaid with no prepayment penalty. As a result of the debt-financed share repurchase transaction, both Moody's and DBRS downgraded the ratings of First Capital's senior unsecured debentures by one notch to Baa3 (Moody's) and BBB (DBRS). On November 6, 2019, S&P began rating FCR's senior unsecured debentures and assigned a public rating of BBB- with a stable outlook, as a result, FCR discontinued its Moody's rating services.

During the third quarter, First Capital entered into a new revolving credit facility with a borrowing capacity of CAD\$250.0 million as well as a new secured construction facility with a borrowing capacity of CAD\$33.3 million, key terms of which are presented in the table below. Concurrent with obtaining the new revolving facility, First Capital reduced the borrowing capacity of its existing revolving facility from \$800 million to \$550 million.

During the fourth quarter, First Capital extended the maturity of its \$20.7 million secured facility to June 30, 2020. In addition, First Capital repaid \$100.0 million of floating rate unsecured bank term loans and \$23.4 million of secured credit facilities.

In addition, First Capital extended the maturity of its \$11.9 million secured facility to January 27, 2020. Subsequent to year-end, First Capital further extended the maturity date by one month.



First Capital's credit facilities as at December 31, 2019 are summarized in the table below:

As at December 31, 2019	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
<b>Unsecured Operating Facilities</b>						
Revolving facility maturing 2023	\$ 550,000	\$ —	\$ (11,428)	\$ 538,572	BA + 1.45% or Prime + 0.45% or US\$ LIBOR + 1.45%	June 30, 2023
Revolving facility maturing 2022 <sup>(1)</sup>	250,000	(24,743)	—	225,257	BA + 1.10% or Prime + 0.25% or US\$ LIBOR + 1.10%	September 29, 2022
Floating rate unsecured term loan maturing 2023 <sup>(2)</sup>	200,000	(197,287)	—	2,713	BA + 1.20%	April 15, 2023
Fixed rate unsecured term loans maturing 2024 - 2026	550,000	(550,000)	—	—	3.29%	March 28, 2024 - April 14, 2026
<b>Secured Construction Facilities</b>						
Maturing 2020 <sup>(3)</sup>	15,000	(14,984)	—	16	BA + 2.50% or Prime + 1.00%	January 31, 2020
Maturing 2021	33,333	(33,333)	—	—	2.79%	August 26, 2021
Maturing 2022 <sup>(3)</sup>	138,000	(52,825)	(1,592)	83,583	BA + 1.350% or Prime + 0.350%	October 26, 2022
<b>Secured Facilities</b>						
Maturing 2020	20,734	(3,050)	(818)	16,866	BA + 1.20% or Prime + 0.20%	June 30, 2020
Maturing 2020	11,875	(11,875)	—	—	BA + 1.20% or Prime + 0.20%	January 27, 2020
Maturing 2022	4,313	(4,313)	—	—	BA + 1.20% or Prime + 0.20%	September 28, 2022
Maturing 2022	6,755	(6,755)	—	—	BA + 1.20% or Prime + 0.20%	December 19, 2022
<b>Total</b>	<b>\$ 1,780,010</b>	<b>\$ (899,165)</b>	<b>\$ (13,838)</b>	<b>\$ 867,007</b>		

<sup>(1)</sup> The Trust had drawn in U.S. dollars the equivalent of CAD\$25.0 million which was revalued at CAD\$24.7 million as at December 31, 2019.

<sup>(2)</sup> The Trust had drawn in U.S. dollars the equivalent of CAD\$200.0 million which was revalued at CAD\$197.3 million as at December 31, 2019.

<sup>(3)</sup> The Trust now consolidates the assets, liabilities, revenues and expenses of MMUR which was previously equity accounted. See Note 6.

### 13. SENIOR UNSECURED DEBENTURES

As at		Interest Rate		December 31, 2019		December 31, 2018
Series	Maturity Date	Coupon	Effective	Principal Outstanding	Liability	Liability
L	July 30, 2019	5.48%	5.61%	\$ —	\$ —	149,891
M	April 30, 2020	5.60%	5.60%	175,000	174,999	174,994
N	March 1, 2021	4.50%	4.63%	175,000	174,754	174,553
O	January 31, 2022	4.43%	4.59%	200,000	199,372	199,091
P	December 5, 2022	3.95%	4.18%	250,000	248,461	247,976
Q	October 30, 2023	3.90%	3.97%	300,000	299,284	299,114
R	August 30, 2024	4.79%	4.72%	300,000	300,853	301,016
S	July 31, 2025	4.32%	4.24%	300,000	301,208	301,401
T	May 6, 2026	3.60%	3.56%	300,000	300,683	300,775
U	July 12, 2027	3.75%	3.82%	300,000	298,622	298,467
V	January 22, 2027	3.46%	3.54%	200,000	198,977	—
Weighted Average or Total		4.18%	4.22%	\$ 2,500,000	\$ 2,497,213	\$ 2,447,278
Current				175,000	174,999	149,891
Non-current				2,325,000	2,322,214	2,297,387
Total				\$ 2,500,000	\$ 2,497,213	\$ 2,447,278

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

On July 22, 2019, First Capital completed the issuance of \$200 million principal amount of Series V senior unsecured debentures due January 22, 2027. These debentures bear interest at a coupon rate of 3.456% per annum, payable semi-annually commencing January 22, 2020. The net proceeds of the offering were used to repay existing debt.

### 14. CONVERTIBLE DEBENTURES

#### (a) Principal redemption

On February 28, 2018, First Capital redeemed its remaining 4.45% Series J convertible debentures for \$55.1 million, at par. The full redemption price and any accrued interest owing on the convertible debentures was satisfied in cash.

#### (b) Principal and interest

During the year ended December 31, 2019, First Capital paid Nil (year ended December 31, 2018 – \$1.0 million) in cash to pay accrued interest to holders of convertible debentures.

## 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at	Note	December 31, 2019	December 31, 2018
<b>Non-current</b>			
Asset retirement obligations (a)		\$ 1,980	\$ 2,642
Ground leases payable		10,035	10,405
Derivatives at fair value	26	1,677	666
Unit-based compensation plans	18	4,447	—
Deferred purchase price of investment property		5,700	7,125
Other liabilities		1,005	—
<b>Total non-current</b>		<b>\$ 24,844</b>	<b>\$ 20,838</b>
<b>Current</b>			
Trade payables and accruals		\$ 57,978	\$ 67,295
Construction and development payables		45,722	62,563
Unit-based compensation plans	18	14,740	—
Dividends payable		—	54,788
Distributions payable	17	15,620	—
Interest payable		35,960	36,056
Tenant deposits		37,955	37,451
Derivatives at fair value	26	3,009	5,706
Other liabilities		8	402
<b>Total current</b>		<b>\$ 210,992</b>	<b>\$ 264,261</b>
<b>Total</b>		<b>\$ 235,836</b>	<b>\$ 285,099</b>

(a) First Capital has obligations for environmental remediation at certain sites within its property portfolio. FCR has also recognized a related environmental indemnity and insurance proceeds receivable totaling \$3.1 million in other assets (Note 10).

## 16. EXCHANGEABLE UNITS

The Exchangeable Units are non-transferable, but are exchangeable, on a one-for-one basis, into First Capital Trust Units at the option of the holder. Any Exchangeable Units outstanding on December 29, 2023 will be automatically exchanged for Trust Units. Prior to such exchange, Exchangeable Units will, in all material respects, be economically equivalent to Trust Units on a per unit basis. Distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the units been exchanged for Trust Units. Holders of Exchangeable Units will receive special voting units that will entitle the holder to one vote at Unitholder meetings (Note 17).

The following table sets forth the particulars of First Capital's Exchangeable Units issued and outstanding:

Year ended December 31	2019		
	Note	Number of Exchangeable Units	Value
Balance at beginning of year		—	\$ —
Issued on conversion		1,210	25,240
Fair value adjustment		—	(230)
<b>Balance at end of year</b>		<b>1,210</b>	<b>\$ 25,010</b>

## 17. UNITHOLDERS' / SHAREHOLDERS' EQUITY

Upon conversion of First Capital from a corporation to a real estate investment trust, the former Shareholders of the Company received Trust Units or Exchangeable Units which are accompanied by special voting units.

The Declaration of Trust authorizes the issuance of an unlimited number of Trust Units and special voting units:

**Trust Units:** Each Trust Unit is transferable and represents an equal, undivided beneficial interest in the Trust and any distributions from the Trust and entitles the holder to one vote at a meeting of Unitholders. With certain restrictions, a Unitholder has the right to require First Capital to redeem its Trust Units on demand. Upon receipt of a redemption notice by First Capital, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit as determined by a market formula and shall be paid in accordance with the conditions provided for in the Declaration of Trust (December 31, 2018 - The authorized share capital of the Company consisted of an unlimited number of authorized common shares and preference shares).

**Special Voting Units:** Each Exchangeable Unit (Note 16) is accompanied by one special voting unit which provides the holder thereof with a right to vote on matters respecting the Trust.

### (a) Trust Units / Common Shares

The following table sets forth the particulars of First Capital's Trust Units / Common Shares issued and outstanding:

Year ended December 31		2019		2018			
	Note	Number of Trust Units	Value of Trust Units	Number of Common Shares	Value of Common Shares	Number of Common Shares	Value of Common Shares
Balance at beginning of year		—	\$ —	254,828	\$ 3,364,948	244,431	\$ 3,159,542
Repurchase of common shares		—	—	(36,000)	(475,560)	—	—
Exercise of options, and settlement of any restricted, performance and deferred share units		—	—	336	6,553	640	11,556
Issuance of common shares		—	—	—	—	9,757	200,019
Share repurchase costs, net of tax effect		—	—	—	(8,850)	—	(6,169)
REIT Conversion	4	217,954	2,872,907	(219,164)	(2,887,091)	—	—
Balance at end of year		217,954	\$ 2,872,907	—	\$ —	254,828	\$ 3,364,948

On April 16, 2019, the Company completed the share repurchase of 36 million common shares from Gazit at a price of \$20.60 per share for gross proceeds to Gazit of \$741.6 million. The share repurchase resulted in a reduction of stated capital representing the par value of the 36 million common shares of \$475.6 million, a reduction in contributed surplus of \$24.9 million and a reduction in retained earnings of \$241.1 million. The share repurchase was cross-conditional on the completion of Gazit's bought deal secondary offering of 22 million of the Company's common shares at a price of \$20.60 per share to a syndicate of underwriters for gross proceeds to Gazit of approximately \$453 million which closed on April 11, 2019.

### (b) Dividends / Distributions

Prior to the REIT conversion, the Company declared quarterly dividends of \$0.645 per common share for the year ended December 31, 2019 (year ended December 31, 2018 – \$0.860).

First Capital adopted a distribution policy, as permitted under the Declaration of Trust, to make monthly cash distributions to Unitholders initially equal to, on an annual basis, \$0.86 per Trust Unit. The initial monthly distribution of \$0.0716 per unit was declared to unitholders of record on December 31, 2019, and will be paid by First Capital on January 15, 2020.

### (c) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

Year ended December 31	2019				2018			
	Contributed Surplus	Stock-based Compensation Plan Awards	Total	Contributed Surplus	Convertible Debentures Equity Component	Stock-based Compensation Plan Awards	Total	
Balance at beginning of year	\$ 24,903	\$ 19,291	\$ 44,194	\$ 24,517	\$ 386	\$ 17,067	\$ 41,970	
Redemption of convertible debentures	—	—	—	386	(386)	—	—	
Repurchase of common shares	(24,903)	—	(24,903)	—	—	—	—	
Options vested	—	1,238	1,238	—	—	1,121	1,121	
Exercise of options	—	(269)	(269)	—	—	(709)	(709)	
Deferred units	—	864	864	—	—	785	785	
Restricted units	—	1,647	1,647	—	—	1,576	1,576	
Performance units	—	3,179	3,179	—	—	2,394	2,394	
Settlement of any restricted, performance and deferred units	—	(4,209)	(4,209)	—	—	(2,943)	(2,943)	
REIT Conversion (Note 4)	—	(21,741)	(21,741)	—	—	—	—	
Balance at end of year	\$ —	\$ —	\$ —	\$ 24,903	\$ —	\$ 19,291	\$ 44,194	

## 18. UNIT-BASED COMPENSATION PLANS

### REIT Conversion

Upon completion of the REIT conversion, all grants outstanding under the common stock option plan and share unit plans were transferred on a one-to-one basis to unit-based compensation plans.

#### (a) Unit Option Plan

As of December 31, 2019, First Capital is authorized to grant up to 19.7 million (December 31, 2018 – 19.7 million) Trust Unit options to the employees, officers and Trustees. As of December 31, 2019, 3.5 million (December 31, 2018 – 4.4 million) unit options are available to be granted to the employees, officers and Trustees. In addition, as at December 31, 2019, 5.6 million unit options were outstanding. Options granted by First Capital expire 10 years from the date of grant and vest over five years.

The outstanding options as at December 31, 2019 have exercise prices ranging from \$13.91 - \$21.14 (December 31, 2018 – \$9.81 - \$20.24).

As at	December 31, 2019						December 31, 2018				
	Outstanding Options			Vested Options			Outstanding Options		Vested Options		
Exercise Price Range (\$)	Number of Trust Units Issuable (in thousands)	Weighted Average Exercise Price per Trust Unit	Weighted Average Remaining Life (years)	Number of Trust Units Issuable (in thousands)	Weighted Average Exercise Price per Trust Option	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	
13.91 - 18.99	1,434	\$ 18.05	4.0	1,335	\$ 18.02	1,239	\$ 17.70	4.9	954	\$ 17.51	
19.00 - 20.00	886	\$ 19.61	5.9	556	\$ 19.59	1,200	\$ 19.38	6.1	705	\$ 19.24	
20.01 - 20.16	1,918	\$ 20.05	7.8	547	\$ 20.05	1,302	\$ 20.02	8.9	76	\$ 19.96	
20.17 - 21.14	1,346	\$ 21.04	8.9	87	\$ 20.24	995	\$ 20.09	8.1	228	\$ 20.11	
13.91 - 21.14	5,584	\$ 19.70	6.8	2,525	\$ 18.89	4,736	\$ 19.27	7.0	1,963	\$ 18.53	

During the year ended December 31, 2019, \$1.2 million (year ended December 31, 2018 – \$1.1 million) was recorded as an expense related to stock options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – continued

Year ended December 31	2019		2018	
	Number of Trust Units Issuable (in thousands)	Weighted Average Exercise Price	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price
Outstanding at beginning of year	4,736	\$ 19.27	4,132	\$ 18.74
Granted (a)	1,201	21.14	1,197	20.03
Exercised (b)	(233)	18.17	(505)	16.75
Forfeited	(120)	19.74	(88)	19.59
Outstanding at end of year	5,584	\$ 19.70	4,736	\$ 19.27

- (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.

Year ended December 31	2019	2018
Grant date	March 6, 2019	March 2, 2018
Unit / Share options granted (thousands)	1,201	1,197
Term to expiry	10 years	10 years
Exercise price	\$21.14	\$20.03
Weighted average volatility rate	14.0%	13.5%
Weighted average expected option life	5.8 years	5.5 years
Weighted average dividend yield	4.08%	4.33%
Weighted average risk free interest rate	1.71%	2.01%
Fair value (thousands)	\$1,617	\$1,395

- (b) The weighted average market price at which options were exercised for the year ended December 31, 2019 was \$21.34 (year ended December 31, 2018 – \$20.19).
- (c) The assumptions used to measure the fair value of the unit options under the Black-Scholes model (level 2) as at December 31, 2019 were as follows:

Year ended December 31	2019
Expected Trust Unit price volatility	12.06% - 14.35%
Expected life of options	0.2 - 5.7 years
Expected distribution yield	4.16%
Risk free interest rate	1.65% - 1.73%

**(b) Trust Unit arrangements**

First Capital's Trust Unit plans include a Trustees' Deferred Unit ("DU")(formerly "DSU") plan and a Restricted Unit ("RU") (formerly "RSU") plan that provides for the issuance of Restricted Units and Performance Units ("PU")(formerly "PSU"). Under the DU and RU arrangements, a participant is entitled to receive one Trust Unit, or equivalent cash value, at First Capital's option, (i) in the case of a DU, upon redemption by the holder after the date that the holder ceases to be a Trustee of FCR 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 an RU, on the third anniversary of the grant date. Under the PU arrangement, a participant is entitled to receive 0.5 – 1.5 Trust Units per PU granted, or equivalent cash value at First Capital's option, on the third anniversary of the grant date. Holders of units granted under each plan receive distributions in the form of additional units when First Capital declares distributions on its Trust Units.



Year ended December 31	2019		2018	
<i>(in thousands)</i>	DUs	RUs / PUs	DSUs	RSUs / PSUs
Outstanding at beginning of year	289	588	301	482
Granted (a) (b)	31	244	28	221
Dividends declared	10	22	12	27
Exercised	(41)	(179)	(52)	(111)
Forfeited	—	(12)	—	(31)
Outstanding at end of year	289	663	289	588
Expense recorded for the year	\$581	\$4,290	\$549	\$3,555

- (a) The fair value of the DUs granted during the year ended December 31, 2019 was \$0.7 million (year ended December 31, 2018 – \$0.5 million), measured based on First Capital's prevailing Trust Unit / common share price on the date of grant. The fair value of the RUs granted during the year ended December 31, 2019 was \$1.9 million (year ended December 31, 2018 – \$1.6 million), measured based on First Capital's Trust Unit / share price on the date of grant.
- (b) The fair value of the PUs granted during the year ended December 31, 2019 was \$3.4 million (year ended December 31, 2018 – \$2.9 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 Unitholder / Shareholder return of First Capital's Trust Units relative to the S&P/TSX Capped REIT Index.

Year ended December 31	2019	2018
Grant date	March 6, 2019	March 2, 2018
PU's granted (thousands)	154	140
Term to expiry	3 years	3 years
Weighted average volatility rate	14.0%	14.7%
Weighted average correlation	30.8%	37.3%
Weighted average total Shareholder return	9.1%	-3.3%
Weighted average risk free interest rate	1.68%	1.87%
Fair value (thousands)	\$3,399	\$2,866

## 19. NET OPERATING INCOME

### Net Operating Income by Component

First Capital's net operating income by component is presented below:

	Year ended December 31		
	% change	2019	2018
Property rental revenue			
Base rent		\$ 457,200	\$ 452,445
Operating cost recoveries		110,284	107,604
Realty tax recoveries		137,388	137,909
Lease surrender fees		5,265	1,983
Percentage rent		4,798	4,351
Straight-line rent adjustment		5,824	7,062
Prior year operating cost and tax recovery adjustments		(933)	(2,320)
Temporary tenants, storage, parking and other		26,947	20,561
<b>Total Property rental revenue</b>	<b>2.4%</b>	<b>746,773</b>	<b>729,595</b>
Property operating costs			
Recoverable operating expenses		124,080	122,300
Recoverable realty tax expense		155,010	156,084
Prior year realty tax expense		(1,215)	(3,100)
Other operating costs and adjustments		8,501	(462)
<b>Total Property operating costs</b>		<b>286,376</b>	<b>274,822</b>
<b>Total NOI</b>	<b>1.2%</b>	<b>\$ 460,397</b>	<b>\$ 454,773</b>
NOI margin		<b>61.7%</b>	<b>62.3%</b>

### Net Operating Income by Segment

Net operating income is presented by segment as follows:

Year ended December 31, 2019	Central Region	Eastern Region	Western Region	Subtotal	Other <sup>(1)</sup>	Total
Property rental revenue	\$ 326,491	\$ 180,194	\$ 242,390	\$ 749,075	\$ (2,302)	\$ 746,773
Property operating costs	129,947	80,248	81,578	291,773	(5,397)	286,376
<b>Net operating income</b>	<b>\$ 196,544</b>	<b>\$ 99,946</b>	<b>\$ 160,812</b>	<b>\$ 457,302</b>	<b>\$ 3,095</b>	<b>\$ 460,397</b>

Year ended December 31, 2018	Central Region	Eastern Region	Western Region	Subtotal	Other <sup>(1)</sup>	Total
Property rental revenue	\$ 304,426	\$ 190,384	\$ 237,095	\$ 731,905	\$ (2,310)	\$ 729,595
Property operating costs	118,559	82,401	79,755	280,715	(5,893)	274,822
<b>Net operating income</b>	<b>\$ 185,867</b>	<b>\$ 107,983</b>	<b>\$ 157,340</b>	<b>\$ 451,190</b>	<b>\$ 3,583</b>	<b>\$ 454,773</b>

<sup>(1)</sup> Other items principally consist of inter-company eliminations.

For the year ended December 31, 2019, property operating costs include \$21.0 million (year ended December 31, 2018 – \$20.7 million) related to employee compensation.

## 20. INTEREST AND OTHER INCOME

	Note	Year ended December 31	
		2019	2018
Interest, dividend and distribution income from marketable securities and other investments	8	\$ 4,473	\$ 1,994
Interest income from loans and mortgages receivable classified as FVTPL	8	2,767	5,060
Interest income from loans, deposit and mortgages receivable at amortized cost	8	15,517	11,323
Fees and other income		10,292	8,052
<b>Total</b>		<b>\$ 33,049</b>	<b>\$ 26,429</b>

## 21. INTEREST EXPENSE

	Note	Year ended December 31	
		2019	2018
Mortgages	12	\$ 53,920	\$ 46,212
Credit facilities	12	34,163	18,652
Senior unsecured debentures	13	106,326	113,284
Distributions on Exchangeable Units <sup>(1)</sup>	16	86	—
Convertible debentures	14	—	446
<b>Total interest expense</b>		<b>194,495</b>	<b>178,594</b>
Interest capitalized to investment properties under development		(22,661)	(25,354)
<b>Interest expense</b>		<b>\$ 171,834</b>	<b>\$ 153,240</b>
Change in accrued interest		97	1,089
Coupon interest rate in excess of effective interest rate on senior unsecured debentures		1,303	1,177
Coupon interest rate in excess of effective interest rate on assumed mortgages		1,272	967
Amortization of deferred financing costs		(6,428)	(5,304)
<b>Cash interest paid associated with operating activities</b>		<b>\$ 168,078</b>	<b>\$ 151,169</b>

<sup>(1)</sup> Effective December 30, 2019, 1.2 million Exchangeable Units were issued upon REIT conversion. The distributions declared on the Exchangeable Units are accounted for as interest expense.

## 22. CORPORATE EXPENSES

	Year ended December 31	
	2019	2018
Salaries, wages and benefits	\$ 28,825	\$ 27,418
Non-cash compensation	5,658	4,805
Other corporate costs	12,304	12,408
<b>Total corporate expenses</b>	<b>46,787</b>	<b>44,631</b>
Amounts capitalized to investment properties under development	(8,309)	(7,537)
<b>Corporate expenses</b>	<b>\$ 38,478</b>	<b>\$ 37,094</b>

## 23. OTHER GAINS (LOSSES) AND (EXPENSES)

	Year ended December 31	
	2019	2018
Realized gain (loss) on sale of marketable securities	\$ 1,164	\$ 4,232
Unrealized gain (loss) on marketable securities	474	(623)
Net gain (loss) on prepayments of debt (non-cash)	—	(726)
Gain on below market purchase <sup>(1)</sup>	—	13,975
Hotel transaction costs <sup>(1)</sup>	—	(2,052)
Gain on Investment (a)	4,022	—
Proceeds from Target <sup>(2)</sup>	692	—
Investment properties selling costs	(6,381)	(2,556)
REIT conversion costs	(5,013)	(1,540)
Transaction costs (b)	(3,414)	—
Other	(303)	23
<b>Total</b>	<b>\$ (8,759)</b>	<b>\$ 10,733</b>

<sup>(1)</sup> In connection with acquisition of hotel property.

<sup>(2)</sup> In connection with proceeds recognized under Target Canada's CCAA plan of arrangement related to the closure of two Target stores in FCR's portfolio in 2015.

- (a) During the third quarter, one of First Capital's other investments in which FCR was a minority Shareholder was acquired for cash and share consideration resulting in the recognition of a \$4.0 million gain on investment.
- (b) During the first quarter, the Company paid \$9.0 million or 50% of the underwriters' commission as part of the secondary offering by Gazit of 22 million of the FCR shares. Given the cross-conditional nature of the secondary offering and the share repurchase transaction, the \$9.0 million was allocated to both the share repurchase (\$5.6 million) and the secondary offering (\$3.4 million). The amount allocated to the secondary offering was recorded in other gains (losses) and (expenses) during the first quarter.

## 24. INCOME TAXES

The Trust qualifies for the REIT Exemption and as such the Trust itself will not be subject to income taxes provided it continues to qualify as a REIT for purposes of the Act. A REIT is not taxable and not considered to be a Specified Investment Flow-Through Trust provided it complies with certain tests and distributes all of its taxable income in a taxation year to its unitholders. The Trust is a flow-through vehicle and accounts only for income taxes pertaining to its corporate subsidiaries. The Trust's most significant corporate subsidiary, First Capital Realty Inc., is an MFC.

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

	December 31, 2018	Net income	Recognized in OCI	Equity and other	December 31, 2019
Deferred taxes related to non-capital losses	\$ (13,046)	\$ 17,012	\$ (2,360)	\$ (1,606)	\$ —
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	806,346	(99,199)	(2,696)	(2,902)	701,549
<b>Net deferred taxes</b>	<b>\$ 793,300</b>	<b>\$ (82,187)</b>	<b>\$ (5,056)</b>	<b>\$ (4,508)</b>	<b>\$ 701,549</b>

As at December 31, 2019, the corporate subsidiaries of the Trust had approximately Nil of non-capital losses.

	December 31, 2017	Net income	Recognized in OCI	Equity and other	December 31, 2018
Deferred taxes related to non-capital losses	\$ (29,383)	\$ 17,875	\$ (40)	\$ (1,498)	\$ (13,046)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	749,814	61,276	(1,602)	(3,142)	806,346
Net deferred taxes	\$ 720,431	\$ 79,151	\$ (1,642)	\$ (4,640)	\$ 793,300

As at December 31, 2018, the corporate subsidiaries of FCR had approximately \$49.9 million of non-capital losses which expire between 2026 and 2038.

The following reconciles the expected tax expense computed at the statutory tax rate to the actual tax expense for the year ended December 31, 2019 relating to the REIT and for the year ended December 31, 2018 relating to the Company.

	Year ended December 31	
	2019	2018
Income tax computed at the Canadian statutory rate of Nil applicable to the REIT at December 31, 2019; the Canadian federal and provincial tax rate of 26.7% applicable to the Company at December 31, 2018	\$ —	\$ 115,074
Increase (decrease) in income taxes due to:		
Derecognition of deferred income tax liability on REIT conversion	(160,940)	—
Non-taxable portion of capital gains and other	—	(31,681)
Deferred income taxes applicable to corporate subsidiaries	98,184	—
Impact of change in provincial income tax rate	(20,848)	—
Non-controlling interests in income of consolidated limited partnership	—	(2,198)
Other	1,417	(2,044)
Deferred income taxes	\$ (82,187)	\$ 79,151

During the second quarter, the Canadian federal and provincial income tax rate decreased primarily due to a decrease in the general corporate income tax rate in the Province of Alberta resulting in a tax recovery of \$20.8 million upon revaluation of FCR's temporary differences.

Effective December 30, 2019, First Capital recorded the derecognition of a portion of its deferred tax liability to reflect the tax structure of the REIT and its subsidiaries following the conversion under the Arrangement.

## 25. RISK MANAGEMENT

In the normal course of its business, First Capital 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

First Capital 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 FCR's mortgages, loans and credit facilities are floating rate instruments. From time to time, FCR 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. As at December 31, 2019, First Capital has a total of \$315.8 million of outstanding debt bearing interest at variable rates. If the average variable interest rate was 100 basis points higher or lower than the existing rate, FCR's annual interest cost would increase or decrease, respectively, by \$3.2 million.

First Capital has a total of \$1.1 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and secured credit facilities maturing between January 1, 2020 and December

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31, 2022 at a weighted average coupon interest rate of 4.5%. If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, FCR's annual interest cost would increase or decrease, respectively, by \$11.5 million.

As at December 31, 2019, First Capital's loans and mortgages receivable that earn interest at variable rates total \$64.4 million. If the average variable interest rate was 100 basis points higher than the existing rate, FCR's annual interest income would increase by approximately \$644.0 thousand, and if the variable interest rate were 100 basis points lower, FCR's annual interest income would decrease by approximately \$42.4 thousand.

First Capital's loans and mortgages receivable that earn interest at fixed rates total \$78.4 million. If the loans were refinanced at 100 basis points higher or lower than the existing rate, FCR's annual interest income would increase or decrease by approximately \$784.4 thousand.

### (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. First Capital 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, 2019, Loblaw Companies Limited ("Loblaw") is FCR's largest tenant and accounts for 10.2% of FCR'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. First Capital mitigates the risk of credit loss from debtors by undertaking a number of activities typical in lending arrangements including obtaining registered mortgages on the real estate properties.

First Capital's leases typically have lease terms between 5 and 20 years and may include clauses to enable periodic upward revision of the rental rates, and lease contract extension at the option of the lessee.

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

<i>(thousands of Canadian dollars)</i>	2019
Within 1 year	\$ 409,885
After 1 year, but not more than 5 years	1,176,779
More than 5 years	797,853
	<b>\$ 2,384,517</b>

### (c) Liquidity risk

Real estate investments are relatively illiquid. This tends to limit First Capital's ability to sell components of its portfolio promptly in response to changing economic or investment conditions. If FCR 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 First Capital's contractual maturities of its material financial liabilities and other contractual commitments as at December 31, 2019 is set out below:

As at December 31, 2019	Payments Due by Period				
	2020	2021 to 2022	2023 to 2024	Thereafter	Total
Scheduled mortgage principal amortization	\$ 28,399	\$ 58,124	\$ 58,853	\$ 104,813	\$ 250,189
Mortgage principal repayments on maturity	56,875	168,959	108,478	746,718	1,081,030
Credit facilities and bank indebtedness	29,909	121,969	497,347	250,000	899,225
Senior unsecured debentures	175,000	625,000	600,000	1,100,000	2,500,000
Interest obligations <sup>(1)</sup>	174,759	301,620	216,082	174,881	867,342
Land leases (expiring between 2023 and 2061)	1,199	2,413	1,489	16,808	21,909
Contractual committed costs to complete current development projects	73,745	—	—	—	73,745
Other committed costs	7,028	—	—	—	7,028
<b>Total contractual obligations</b>	<b>\$ 546,914</b>	<b>\$ 1,278,085</b>	<b>\$ 1,482,249</b>	<b>\$ 2,393,220</b>	<b>\$ 5,700,468</b>

<sup>(1)</sup> Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2019 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

First Capital 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, 2019, there was \$772.0 million (December 31, 2018 – \$503.0 million) of cash advances drawn against First Capital's unsecured credit facilities.

In addition, as at December 31, 2019, First Capital has \$33.3 million (December 31, 2018 – \$35.7 million) of outstanding letters of credit issued by financial institutions primarily to support certain of FCR's contractual obligations and \$0.1 million (December 31, 2018 – \$7.2 million) of bank overdrafts.

#### **(d) Unit price risk**

First Capital is exposed to Trust Unit price risk as a result of the issuance of Exchangeable Units, which are economically equivalent to and exchangeable for Trust Units, as well as the issuance of unit-based compensation. Exchangeable Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. Exchangeable Units and unit-based compensation negatively impact operating income when the Trust Unit price rises and positively impact operating income when the Trust Unit price declines. An increase of \$1 dollar in the underlying price of First Capital's Trust Units would result in an increase to liabilities, and a decrease to net income as follows:

- (i) Exchangeable Units \$1.2 million (December 31, 2018 – N/A); and
- (ii) Unit-based compensation liabilities \$3.2 million (December 31, 2018 – N/A)

## 26. FAIR VALUE MEASUREMENT

A comparison of the carrying amounts and fair values, by class, of First Capital's financial instruments, other than those whose carrying amounts approximate their fair values, is as follows:

	Notes	Carrying Amount		Fair Value	
		2019	2018	2019	2018
<b>Financial assets</b>					
FVTPL investments in securities	8	\$ 3,949	\$ 23,562	\$ 3,949	\$ 23,562
Loans and mortgages receivable classified as FVTPL	8	20,858	107,617	20,858	107,617
Loans and mortgages receivable classified as amortized cost	8	124,924	217,046	124,740	216,791
Bond asset	10	14,513	N/A	14,513	N/A
Other investments	8	12,302	11,834	12,302	11,834
Derivatives at fair value	10	5,303	22,528	5,303	22,528
<b>Financial liabilities</b>					
Mortgages	12	\$ 1,327,021	\$ 1,285,908	\$ 1,346,852	\$ 1,288,695
Credit facilities	12	899,165	626,172	899,165	626,172
Senior unsecured debentures	13	2,497,213	2,447,278	2,580,365	2,477,968
Exchangeable Units	16	25,010	N/A	25,010	N/A
Unit-based compensation plans	15	19,187	N/A	19,187	N/A
Derivatives at fair value	15	4,686	6,372	4,686	6,372

The fair values of First Capital's FVTPL investments in securities are based on quoted market prices. First Capital has other investments in certain funds and a private entity classified as Level 3, for which the fair values are based on the fair value of the properties held in the funds. The private entity fair value approximates its cost.

The fair value of First Capital'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, 2019, the risk-adjusted interest rates ranged from 3.5% to 11.4% (December 31, 2018 – 4.1% to 15.6%).

The fair value of First Capital'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, 2019, these rates ranged from 3.2% to 3.4% (December 31, 2018 – 3.3% to 3.7%).

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 Trust uses, among others, interest rate quotations provided by financial institutions. As at December 31, 2019, these rates ranged from 2.3% to 3.6% (December 31, 2018 – 2.6% to 4.1%).

The fair value of the Exchangeable Units are based on the Trust's closing price as of December 31, 2019.

The fair value of the unit-based compensation plans are based on the following:

*Unit Option Plan:* Fair value of each tranche is valued separately using a Black-Scholes option pricing model.

*Deferred Units/Restricted Units:* Fair value is based on the Trust's closing price as of December 31, 2019.

*Performance Units:* Fair Value is calculated using a Monte-Carlo simulation model.

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

As at	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Measured at fair value</b>						
<b>Financial Assets</b>						
FVTPL investments in securities	\$ 3,949	\$ —	\$ —	\$ 23,562	\$ —	\$ —
Loans and mortgages receivable	—	—	20,858	—	—	107,617
Other investments	—	—	12,302	—	—	11,834
Derivatives at fair value – assets	—	5,303	—	—	22,528	—
<b>Financial Liabilities</b>						
Exchangeable Units	—	25,010	—	—	—	—
Unit-based compensation plans	—	19,187	—	—	—	—
Derivatives at fair value – liabilities	—	4,686	—	—	6,372	—
<b>Measured at amortized cost</b>						
<b>Financial Assets</b>						
Loans and mortgages receivable	—	—	124,740	—	—	216,791
Bond asset	—	14,513	—	—	—	—
<b>Financial Liabilities</b>						
Mortgages	—	1,346,852	—	—	1,288,695	—
Credit facilities	—	899,165	—	—	626,172	—
Senior unsecured debentures	\$ —	\$ 2,580,365	\$ —	\$ —	\$ 2,477,968	\$ —

First Capital 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 First Capital has applied hedge accounting, the change in fair value for the effective portion of the derivative is recorded in OCI from the date of designation. For those derivative instruments to which First Capital 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, 2019, the interest rates ranged from 1.7% to 3.7% (December 31, 2018 – 2.0% to 4.5%). The fair values of First Capital's asset (liability) hedging instruments are as follows:

	Designated as Hedging Instrument	Maturity as at December 31, 2019	December 31, 2019	December 31, 2018
<b>Derivative assets</b>				
Bond forward contracts	Yes	May 2020	\$ 2,372	\$ 4,125
Interest rate swaps	Yes	April 2024 - March 2027	2,931	9,983
Cross currency swaps	No	N/A	—	8,420
Total			\$ 5,303	\$ 22,528
<b>Derivative liabilities</b>				
Bond forward contracts	Yes	N/A	\$ —	\$ 5,706
Interest rate swaps	Yes	April 2024 - April 2026	1,677	666
Cross currency swaps	No	January 2020	3,009	—
Total			\$ 4,686	\$ 6,372

## 27. SUBSIDIARIES WITH NON-CONTROLLING INTEREST

As at December 31, 2019 First Capital has interests in two entities that it controls and consolidates 100% of the assets, liabilities, revenues and expenses of each entity subject to a non-controlling interest.

Name of Entity	Primary Investment	Effective Ownership	
		December 31, 2019	December 31, 2018
Main and Main Developments LP	46.875% Interest in MMUR <sup>(1)</sup>	67.0%	67.0%
Maincore Equities Inc.	46.875% Interest in MMUR <sup>(1)</sup>	90.0%	N/A

<sup>(1)</sup> FCR has owned a 6.25% direct interest in MMUR since 2014.

First Capital controls MMLP, a subsidiary in which it holds a 67% ownership interest.

During the third quarter, First Capital, together with its partner acquired the remaining 46.9% interest in MMUR from the exiting partner by acquiring the shares of Maincore Equities Inc.

During the year ended December 31, 2018, MMUR completed the sale of the majority of its portfolio (19 of 23 properties) for approximately \$310 million. The net proceeds from the sale, after repayment of debt were distributed to the joint venture partners, including MMLP, which was then distributed to FCR and to the non-controlling interest. As a result, First Capital received net distributions of \$74.2 million representing its direct and indirect interests while the non-controlling interest partner received \$30.5 million.

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

As at	December 31, 2019	December 31, 2018
Non-current assets	\$ 213,183	\$ 84,070
Current assets	25	6,440
<b>Total assets</b>	<b>\$ 213,208</b>	<b>\$ 90,510</b>
Current liabilities	69	117
Total liabilities	69	117
<b>Net assets</b>	<b>\$ 213,139</b>	<b>\$ 90,393</b>
Non-controlling interest	\$ 48,914	\$ 29,830

	Year ended December 31	
	2019	2018
Revenue	\$ 6,113	\$ 5,155
Share of profit from joint ventures	40,209	23,075
Expenses	(1,571)	(3,283)
<b>Net income</b>	<b>\$ 44,751</b>	<b>\$ 24,947</b>
Non-controlling interest	\$ 12,995	\$ 8,232

	Year ended December 31	
	2019	2018
Cash provided by operating activities	\$ 8,153	\$ 1,768
Cash used in financing activities	—	—
Cash provided by (used in) investing activities	(9,265)	(1,500)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (1,112)</b>	<b>\$ 268</b>

## 28. CO-OWNERSHIP INTERESTS

First Capital has co-ownership interests in several properties, as listed below, that are subject to joint control and represent joint operations under IFRS 11, "Joint Arrangements". First Capital recognizes its share of the direct rights to the assets and obligations for the liabilities of these co-ownerships in the consolidated financial statements.

Property <sup>(1)</sup>	Location	Ownership Interest	
		December 31, 2019	December 31, 2018
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%
738-11th Avenue SW (Glenbow)	Calgary, AB	50%	N/A
Gloucester City Centre	Ottawa, ON	50%	N/A
Carrefour du Plateau	Gatineau, QC	50%	N/A
Merivale Mall	Ottawa, ON	50%	N/A
Galeries de Repentigny	Repentigny, QC	50%	N/A
Galeries Brien Ouest/Est	Repentigny, QC	50%	N/A
Gateway Village	St. Albert, AB	50%	N/A
King High Line - Residential	Toronto, ON	66.6%	50%
Midland (land)	Midland, ON	50%	50%
Rutherford Marketplace (Residential Inventory)	Vaughan, ON	50%	50%
Hunt Club – Petrocan	Ottawa, ON	50%	50%
Hunt Club Marketplace	Ottawa, ON	66.6%	66.6%
Lachenaie Properties	Lachenaie, QC	50%	50%
South Oakville Properties <sup>(2)</sup>	Oakville, ON	50%	50%
Whitby Mall	Whitby, ON	50%	50%
Thickson Mall	Whitby, ON	50%	50%
St. Hubert Portfolio <sup>(3)</sup>	St. Hubert, QC	50%	N/A
Ottawa Portfolio <sup>(3)</sup>	Ottawa, ON	50%	N/A
West Island Portfolio <sup>(4)</sup>	Beaconsfield, QC / Kirkland, QC	50%	N/A
Seton Gateway	Calgary, AB	50%	50%
Sherwood Park	Sherwood Park, AB	50%	50%
The Edmonton Brewery District	Edmonton, AB	50%	50%
140 Yorkville Avenue	Toronto, ON	33.3%	N/A
West Springs Village	Calgary, AB	50%	50%
216 Elgin Street	Ottawa, ON	50%	50%
221 - 227 Sterling	Toronto, ON	35%	35%
London Portfolio <sup>(5)</sup>	London, ON	49.5%	49.5%
Molson's Building	Calgary, AB	75%	75%
1071 King Street West	Toronto, ON	66.6%	66.6%
200 Esplanade (Empire Theatres)	North Vancouver, BC	50%	50%
400 King Street West <sup>(6)</sup>	Toronto, ON	50%	N/A
1120 Kingston Road <sup>(6)</sup>	Toronto, ON	60%	N/A

<sup>(1)</sup> During 2019, FCR disposed of Kanata Terry Fox (land)(December 31, 2018 - 50%), McLaughlin Corners (December 31, 2018 - 50%) and Bow Valley Crossing (land) (December 31, 2018 - 75%).

<sup>(2)</sup> South Oakville Properties includes one property at 50% interest, with the remaining properties held at 100% interest.

<sup>(3)</sup> St. Hubert Portfolio includes Carrefour St-Hubert, Plaza Actuel, and Promenades du Parc. Ottawa Portfolio includes Loblaws Plaza, Eagleson Place, and Strandherd Crossing.

<sup>(4)</sup> West Island Portfolio includes Centre Commercial Beaconsfield, Plaza Beaconsfield, Centre St-Charles, Centre Kirkland, and Place Kirkland.

<sup>(5)</sup> London Portfolio includes Wellington Corners, Sunningdale Village, Byron Village, Hyde Park Plaza, Stoneybrook Plaza, and Adelaide Shoppers.

<sup>(6)</sup> Co-ownership interests held by MMUR. As at December 31, 2018, MMUR was a joint venture accounted for using the equity method.

## 29. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

### (a) Accumulated other comprehensive income (loss)

Year ended December 31	2019						2018
	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 investments in equity securities	\$ 45	\$ —	\$ 45	\$ 45	\$ —	45	
Unrealized gains (losses) on cash flow hedges	(4,533)	(6,224)	(10,757)	(5)	(4,528)	(4,533)	
Unrealized gains (losses) on revaluation of hotel property	—	2,910	2,910	—	—	—	
Accumulated other comprehensive income (loss)	\$ (4,488)	\$ (3,314)	\$ (7,802)	\$ 40	\$ (4,528)	(4,488)	

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

Year ended December 31	2019						2018
	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	\$ (12,967)	\$ 5,812	\$ (7,155)	\$ (7,638)	\$ 2,032	(5,606)	
Reclassification of losses on cash flow hedges to net income	1,687	(756)	931	1,468	(390)	1,078	
Unrealized gains (losses) on revaluation of hotel property	2,910	—	2,910	—	—	—	
Other comprehensive income (loss)	\$ (8,370)	\$ 5,056	\$ (3,314)	\$ (6,170)	\$ 1,642	(4,528)	

## 30. SUPPLEMENTAL CASH FLOW INFORMATION

### (a) Items not affecting cash and other items

	Note	Year ended December 31	
		2019	2018
Straight-line rent adjustment	19	\$ (5,824)	\$ (7,062)
Investment properties selling costs	23	6,381	2,556
Realized (gain) loss on sale of marketable securities	23	(1,164)	(4,232)
Unrealized (gain) loss on marketable securities classified as FVTPL	23	(474)	623
Gain on below market purchase <sup>(1)</sup>	23	—	(13,975)
Hotel transaction costs <sup>(1)</sup>	23	—	2,052
Net (gain) loss on prepayments of debt	23	—	726
Transaction costs <sup>(2)</sup>	23	3,414	—
Gain on Investment	23	(4,022)	—
Non-cash compensation expense		5,615	5,226
Increase (decrease) in value of Exchangeable Units	16	(230)	—
Deferred income taxes	24	(82,187)	79,151
Other non-cash items		338	(23)
<b>Total</b>		<b>\$ (78,153)</b>	<b>\$ 65,042</b>

<sup>(1)</sup> In connection with acquisition of hotel property - Refer to Note 7.

<sup>(2)</sup> Transaction costs incurred relate to the secondary offering by Gazit of 22 million of the Company's common shares.

### (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	
		2019	2018
Amounts receivable	\$	4,870	\$ (10,954)
Prepaid expenses		(1,517)	1,120
Trade payables and accruals		(12,459)	3,838
Tenant security and other deposits		570	6,668
Other working capital changes		(4,035)	(7,046)
<b>Total</b>	<b>\$</b>	<b>(12,571)</b>	<b>\$ (6,374)</b>

### (c) Changes in loans, mortgages and other assets

		Year ended December 31	
		2019	2018
Advances of loans and mortgages receivable	\$	(62,545)	\$ (112,015)
Repayments of loans and mortgages receivable and deposits		183,194	29,001
Other investments, net		3,554	(9,269)
Investment in marketable securities, net		(5,000)	(96,221)
Proceeds from disposition of marketable securities		26,251	97,988
<b>Total</b>	<b>\$</b>	<b>145,454</b>	<b>\$ (90,516)</b>



**(d) Cash and cash equivalents**

As at	December 31, 2019	December 31, 2018
Cash and cash equivalents <sup>(1)</sup>	\$ 25,503	\$ 15,534

<sup>(1)</sup> Principally consisting of cash related to co-ownerships and properties managed by third parties.

**31. COMMITMENTS AND CONTINGENCIES**

- (a) First Capital 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 FCR.
- (b) First Capital is contingently liable, jointly and severally or as guarantor, for approximately \$77.5 million (December 31, 2018 – \$152.2 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) First Capital is contingently liable by way of letters of credit in the amount of \$33.3 million (December 31, 2018 – \$35.7 million), issued by financial institutions on FCR’s behalf in the ordinary course of business.
- (d) First Capital has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately \$1.2 million (December 31, 2018 – \$1.2 million) with a total obligation of \$21.9 million (December 31, 2018 – \$23.6 million).

**32. RELATED PARTY TRANSACTIONS**

**(a) Gazit-Globe**

Effective April 16, 2019, Gazit's ownership of First Capital was reduced to approximately 9.9% following the completion of the secondary offering and share repurchase transactions. In the fourth quarter, Gazit sold a portion of its remaining interest in FCR, reducing its ownership as at December 31, 2019 to 6.7% (December 31, 2018 – 31.3%). Subsequent to year-end, Gazit further reduced its ownership interest in FCR from 6.7% to 4.4%.

Corporate and other amounts receivable include amounts due from Gazit. Gazit reimburses First Capital for certain accounting and administrative services provided to it by FCR. Such amounts consist of the following:

	Year ended December 31	
	2019	2018
Reimbursements for professional services	\$ 157	\$ 186

As at December 31, 2019, amounts due from Gazit were \$27 thousand (December 31, 2018 – \$40 thousand).

**(b) Joint ventures**

During the year ended December 31, 2019, First Capital earned fee income of \$1.9 million (December 31, 2018 – \$4.5 million) from its joint ventures.

During the year ended December 31, 2019, First Capital also advanced \$1.2 million (December 31, 2018 – \$2.1 million) to one of its joint ventures.

**(c) Subsidiaries of the Trust**

These audited annual consolidated financial statements include the financial statements of First Capital Real Estate Investment Trust and all of its subsidiaries, including First Capital Realty Inc., First Capital REIT Limited Partnership and First Capital Holdings Trust. First Capital Realty Inc. and First Capital Holdings Trust are the significant subsidiaries of the Trust and are wholly owned.

#### (d) Compensation of Key Management Personnel

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

	Year ended December 31	
	2019	2018
Salaries and short-term employee benefits	\$ 4,724	\$ 4,551
Unit / Share-based compensation (non-cash compensation expense)	4,362	3,912
	\$ 9,086	\$ 8,463

### 33. SUBSEQUENT EVENTS

#### *Monthly Distribution*

On January 15, 2020, First Capital announced that it will pay a distribution, for the month of January, of \$0.072 per Trust Unit on February 14, 2020 to Unitholders of record on January 31, 2020.



# Unitholder Information

## HEAD OFFICE

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Fax: 416 941 1655

## MONTREAL OFFICE

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Tel: 514 332 0031  
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## CALGARY OFFICE

### Mount Royal Block

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Fax: 403 257 6899

## EDMONTON OFFICE

### Edmonton Brewery District

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Edmonton, Alberta T5K 0K2  
Tel: 780 475 3695

## VANCOUVER OFFICE

### Shops at New West

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## TRANSFER AGENT

### Computershare Trust Company of Canada

100 University Avenue, 11th Floor  
Toronto, Ontario M5J 2Y1  
Toll-free: 1 800 564 6253

## EXECUTIVE LEADERSHIP TEAM

### Adam Paul

President and Chief Executive Officer

### Kay Brekken

Executive Vice President and  
Chief Financial Officer

### Jordan Robins

Executive Vice President and  
Chief Operating Officer

### Carmine Francella

Senior Vice President, Leasing

### Alison Harnick

Senior Vice President, General Counsel

### Maryanne McDougald

Senior Vice President, Operations

### Jodi Shpigel

Senior Vice President, Development

### Michele Walkau

Senior Vice President, Brand & Culture

## AUDITORS

### Ernst & Young LLP

Toronto, Ontario

## TRUSTEES

### Bernard McDonell

Chair of the Board

### Leonard Abramsky

Trustee

### Paul Douglas

Trustee

### Jon Hagan

Trustee

### Annalisa King

Trustee

### Al Mawani

Trustee

### Adam Paul

Trustee

### Dori Segal

Trustee

### Andrea Stephen

Trustee



FCR.CA



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