

RIO CAN

REAL VISION, SOLID GROUND.

ANNUAL REPORT 20 17

SURFACING
VALUE
IN CANADA'S
MAJOR
MARKETS



THE MAJOR MARKETS

CANADIAN POPULATION: **36,708,083**

POPULATION GROWTH SINCE 2006: **8.1%**

POPULATION FOR THE 6 MAJOR MARKETS: **17,790,810**

POPULATION GROWTH FOR THE

6 MAJOR MARKETS SINCE 2006: **26.1%**



CORPORATE PROFILE

RioCan is Canada's largest real estate investment trust with a total enterprise value of approximately \$13.9 billion as at December 31, 2017. RioCan is a fully integrated REIT that owns, manages and develops high quality retail-focused, increasingly mixed-use properties in Canada with ownership interests in a portfolio of 289 retail and mixed-use properties, including 17 properties under development, containing an aggregate net leasable area of 44 million square feet. 76.1% of RioCan's annual rental revenue is comprised from a portfolio that is powerfully rooted in Canada's six largest markets.

TABLE OF CONTENTS

IFC	CORPORATE PROFILE
1	THE MAJOR MARKETS
2	CEO'S LETTER TO UNITHOLDERS
6	GLOUCESTER
8	EPLACE
10	KING PORTLAND CENTRE
12	YONGE SHEPPARD CENTRE
14	BRENTWOOD VILLAGE
16	MANAGEMENT TEAM
17	PROPERTY PORTFOLIO
27	MANAGEMENT'S DISCUSSION AND ANALYSIS
101	FINANCIALS
147	CORPORATE INFORMATION



TORONTO

Metropolitan area: **6,654,682**
Population growth since 2006: **30.2%**
% of Income Producing NLA: **34.9%**
% of annualized rental revenue: **40.9%**

VANCOUVER

Metropolitan area: **2,571,262**
Population growth since 2006: **21.5%**
% of Income Producing NLA: **4.3%**
% of annualized rental revenue: **4.7%**

EDMONTON

Metropolitan area: **1,451,849**
Population growth since 2006: **40.3%**
% of Income Producing NLA: **4.1%**
% of annualized rental revenue: **4.9%**

CALGARY

Metropolitan area: **1,597,701**
Population growth since 2006: **48.0%**
% of Income Producing NLA: **7.6%**
% of annualized rental revenue: **8.2%**

OTTAWA

Metropolitan area: **1,377,016**
Population growth since 2006: **21.8%**
% of Income Producing NLA: **11.7%**
% of annualized rental revenue: **11.8%**

MONTREAL

Metropolitan area: **4,138,300**
Population growth since 2006: **13.8%**
% of Income Producing NLA: **7.7%**
% of annualized rental revenue: **5.6%**

SURFACING
VALUE
IN CANADA'S
MAJOR
MARKETS



**EDWARD SONSHINE, O.ONT., Q.C.
CHIEF EXECUTIVE OFFICER**

To ensure its premiere position in the Canadian marketplace, RioCan is transforming properties in high-density, transit-orientated locations. RioCan's growth flourishes in Canada's six major markets: Toronto, Ottawa, Calgary, Edmonton, Vancouver and Montréal, cities with compelling demographics and strong population growth. RioCan properties greatly appeal to tenants, resulting in stable tenancies and strong income growth.



CEO'S LETTER TO UNITHOLDERS

Dear Unitholders,

RioCan – We Are Where You Want To Be

2017 was a year of much change and saw a strong progression of RioCan's strategic vision. While the Trust made significant progress on its development program and accelerating its major market strategy, it delivered at the same time the highest same property net operating income ("NOI") growth since 2010 and 6.3% year-over-year funds from operations ("FFO") growth.

With a total enterprise value of \$13.9 billion, RioCan's portfolio of retail and increasingly mixed-use properties is powerfully rooted in Canada's six major markets. Twenty five years of experience, acumen and insight have resulted in an incomparable major-market portfolio, with a diversified, strong national tenant base, significant upside on rent growth and tremendous intrinsic value that will drive Net Asset Value ("NAV") and FFO growth in the near and long term. This portfolio is managed and optimized by the strong executive bench who use their collective wealth of experience and expertise to drive organic growth, strategically surface the intrinsic value within the portfolio; maintain a strong balance sheet and make selective acquisitions.

Canadian consumers' shopping habits are changing, as are Canada's major markets, which are becoming more populous and urbanized. Increasingly there is a need for mixed-use communities in Canada's major markets as more Canadians shop, live and work in urban settings. RioCan's portfolio of major market assets is perfectly positioned to capitalize on these trends and drive value growth for our unitholders.

Growth Driven By Insight

As evidenced by a number of key indicators, 2017 was a strong year for the Trust. These results were bolstered by strong organic growth and committed occupancy that is returning to a level consistent with our historical average at 96.6% as at December 31, 2017. During 2017, we retained over 90% of our expiring leases and attained, on average, approximately 6% increase in renewal rent. These accomplishments translated into a 6.3% increase in FFO per unit in 2017 as compared to 2016.

Based on the growth over this past year, and the Trust's confidence in our ability to maintain our growth profile, the Board of Trustees approved a three cent or 2.1% increase to RioCan's 2018 distribution to an annualized distribution of \$1.44 per unit per year.

Canada's Six Major Markets: A Foundation For The Present – And The Future

RioCan has the entrepreneurial vision to identify opportunities and the resources to realize them. At the onset of our REIT, our business primarily consisted of acquiring and managing shopping centres. More than a decade ago, RioCan anticipated a demographic shift away from Canada's secondary markets to Canada's six major markets with compelling demographics and rapid population growth: Toronto, Ottawa, Calgary, Edmonton, Vancouver and Montréal. This population growth has driven investment in new infrastructure, specifically significant investment in transit expansion. Population density and accessibility make these markets compelling for tenants, resulting in a resilient portfolio with stable tenancies and strong income growth. We planned for this seismic demographic shift into the nation's six major markets, and for more than a decade RioCan has focused its growth in these markets.

At its core, RioCan represents a portfolio of retail-focused, increasingly mixed-use properties situated in high-density, transit-oriented locations. Due to its intrinsic value, RioCan's major market portfolio is central to its ongoing success. Currently, approximately 76% of our revenue is generated from these markets. Upon the completion of our announced secondary market property dispositions over the next two to three years, more than 90% of our rental revenue will be produced in

Canada's six largest markets. Of note, we expect that more than 50% of our revenue will be generated from Canada's largest market: the Greater Toronto Area ("GTA"). The anticipated outcome will be a resilient portfolio that generates stronger same property NOI growth per year and every property in that portfolio will eventually be an opportunity to surface increased value.

In addition to evolving the geographic mix of our portfolio, we are also evolving our tenant mix. RioCan recognizes that our success is deeply intertwined with the success of our tenants. By anticipating, planning for the future and continuously evolving, RioCan attracts tenants best suited for future success. Over the past decade, RioCan has increased our tenant concentration into the strongest retail sectors, such as grocery, pharmacy, restaurants, personal services, and value retailers.

Maximizing Value By Disposing Of Secondary Market Assets

To accelerate the progress of our major market initiatives, we have embarked on the sale of approximately 100 properties largely in Canada's secondary markets with a value surpassing \$2.0 billion. These properties generate stable income; however, their growth profile lags that of RioCan's major market portfolio. Over the next two to three years, we anticipate realizing approximately \$1.5 billion of net proceeds from these sales. These funds will be allocated to maintaining our current leverage and capital structure, the development program, and the repurchase of units through our normal course issuer bid.

We have made significant progress on the disposition of these properties. As of February 13, 2018 there is a total of approximately \$512 million in either closed, firm or conditional transactions, representing approximately 25% of the \$2.0 billion disposition target at sale prices in-line with IFRS values.

2019

Phase I, 23 Storey,
222 Residential
Units

PHASE II

Exciting New
Community, 15
Minutes From
Downtown Ottawa

FUTURE
PHASE

Approval For A
Total Of 4 Towers
And Up To 820
Units



RioCan crafts a site-specific approach for every project, based on demographics, retail trends, the competitive environment, and current and future transit infrastructure. RioCan's mixed-use projects feature leading retailers, a rental residential and/or a condominium component and in some cases an office component. Canadians living in the six major markets enjoy the convenience of shopping, living, and working in RioCan's signature properties.

Surfacing Value With An Exceptional Balance Sheet

RioCan's financial strength is derived from a conservative balance sheet, and sound fiscal discipline, which provides the flexibility to carry out its large-scale, capital-intensive projects. To mitigate risk RioCan employs a principle we call "laddering" in our development program, similar to our approach with staggering our debt maturities. The "debt ladder" is an effective tool in both a declining interest rate environment as well as in a slowly rising interest rate economy, as is the case presently. In a similar manner, RioCan "stagger" the development of our properties so as to spread out risk, allowing us to best allocate our financial, and human capital resources to achieve our strategic goals.

Our ability to find strategic acquisitions and develop key strategic relationships is another of RioCan's competitive advantages that is based on a 25 year proven track record and deep respect within the industry. In certain instances, RioCan forms strategic partnerships for large-scale projects, allowing us to disperse our financial risk, crystalize value of zoned density, leverage our partners' local expertise, and at the same time drive revenue through property and development management fees.

RioCan's development program will continue to expand as we identify and realize new intensification opportunities within our portfolio in Canada's growing six major markets.

Building Success In The 21st Century

What will RioCan look like moving forward? Upon completion of the disposition of our secondary market assets, RioCan expects that more than 90% of its rental revenue will be generated from Canada's six major markets, with more than 50% of these revenues derived from the Greater Toronto Area's thriving marketplace.

Surfacing Value Through Intensification And Redevelopment

RioCan's major market portfolio today presents significant redevelopment opportunities to unlock the intrinsic value of our assets, or "surface value" that is inherent in our property portfolio. Unlocking this value will generate tangible benefits to Unitholders: stronger FFO and cash flow growth and increased net asset value.

How Will RioCan Surface Value?

As a mini case study, consider a shopping centre that was built in Toronto decades ago. Over time, the surrounding neighbourhood has grown in density and major new transit infrastructure is being added to the community. Accordingly, the value of our land, of which more than half is a parking lot, has increased by a multiple of its original value. To unlock its full value, RioCan will "intensify" this property with a retail component, and the addition of residential uses, often vertically.

Currently, RioCan has identified 74 projects in our portfolio for potential intensification and redevelopment, some of which we will develop with strategic partners. In the initial planning stages, additional value for these properties is surfaced by obtaining the necessary zoning approvals to proceed with future development and RioCan has already obtained such approvals for 52 of these projects in our six major markets. Transformative and much talked-about development completions coming in future months include Yonge Eglinton Northeast Corner (ePlace), King Portland Centre, in Toronto and the first phase at our Gloucester rental residential development in Ottawa, to name but a few.

Although RioCan will always feature a significant retail component, retail has changed in terms of client mix and goods and services offered. To maintain our leadership in the marketplace, our development strategy reflects a popular saying: "People shop where they live, and, increasingly live where they shop." Consumers will easily find, enjoy and shop in RioCan's properties in high-density, transit oriented locations in Canada's major markets.

RioCan is a dynamic entity whose growth is driven by insight. We constantly evaluate our portfolio of properties for opportunities to surface value and increase FFO, cash flow, and NAV growth. We see our communities in which we operate for what they are, what they could be, and what they need to get there. Our seasoned management team has the entrepreneurial spirit to imagine – and seize opportunities. RioCan capitalizes on its resources, financial strength, and discipline to form long-lasting strategic relationships with tenants and joint venture partners to ensure every RioCan property is optimized to deliver its highest and best use.

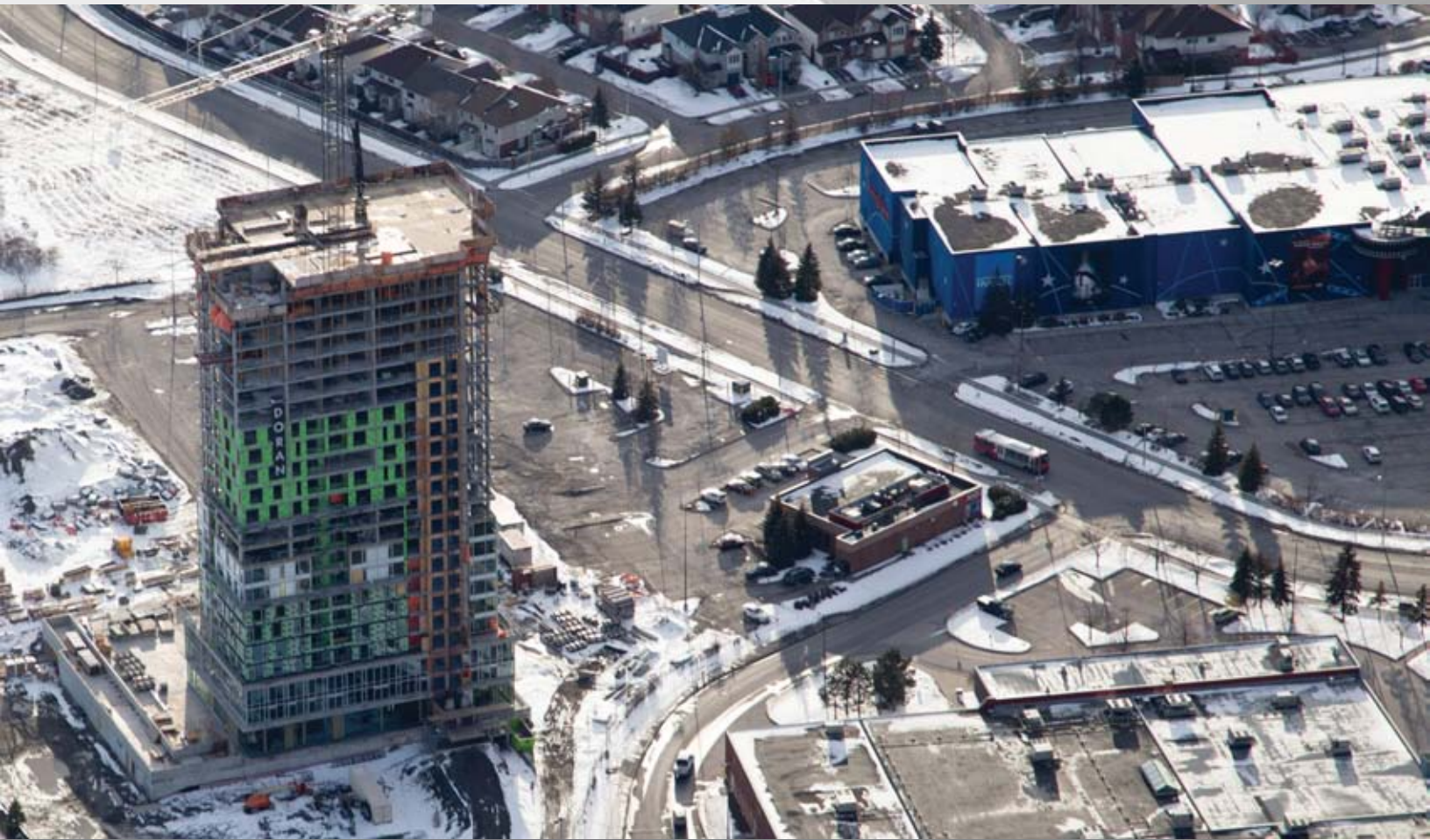
The execution of our strategy is designed to ensure success today, and to secure RioCan's growth and market leadership tomorrow. We are proud of our results to date and eagerly anticipate and plan for further success.

Thank you for your continued support and confidence in RioCan.

Ed Sonshine O.Ont., Q.C.
Chief Executive Officer
RioCan Real Estate
Investment Trust

OTTAWA_

MAJOR MARKET



RioCan leads the way in innovative mixed-use properties that include leading retailers and smart residential living, located in close proximity to existing or proposed transit infrastructure.

Gloucester (Frontier)

Frontier, in Gloucester is a striking, modern 23 storey tower featuring 222 residential units. Frontier offers a contemporary lifestyle adjacent to RioCan's Silver City Gloucester, a 150,600 square foot retail centre with a GoodLife gym, a Cineplex theatre, Indigo, and a variety of exciting new restaurants and amenities. The site, located right on the LRT line, is complemented with top retailers and other conveniences right at the doorstep.



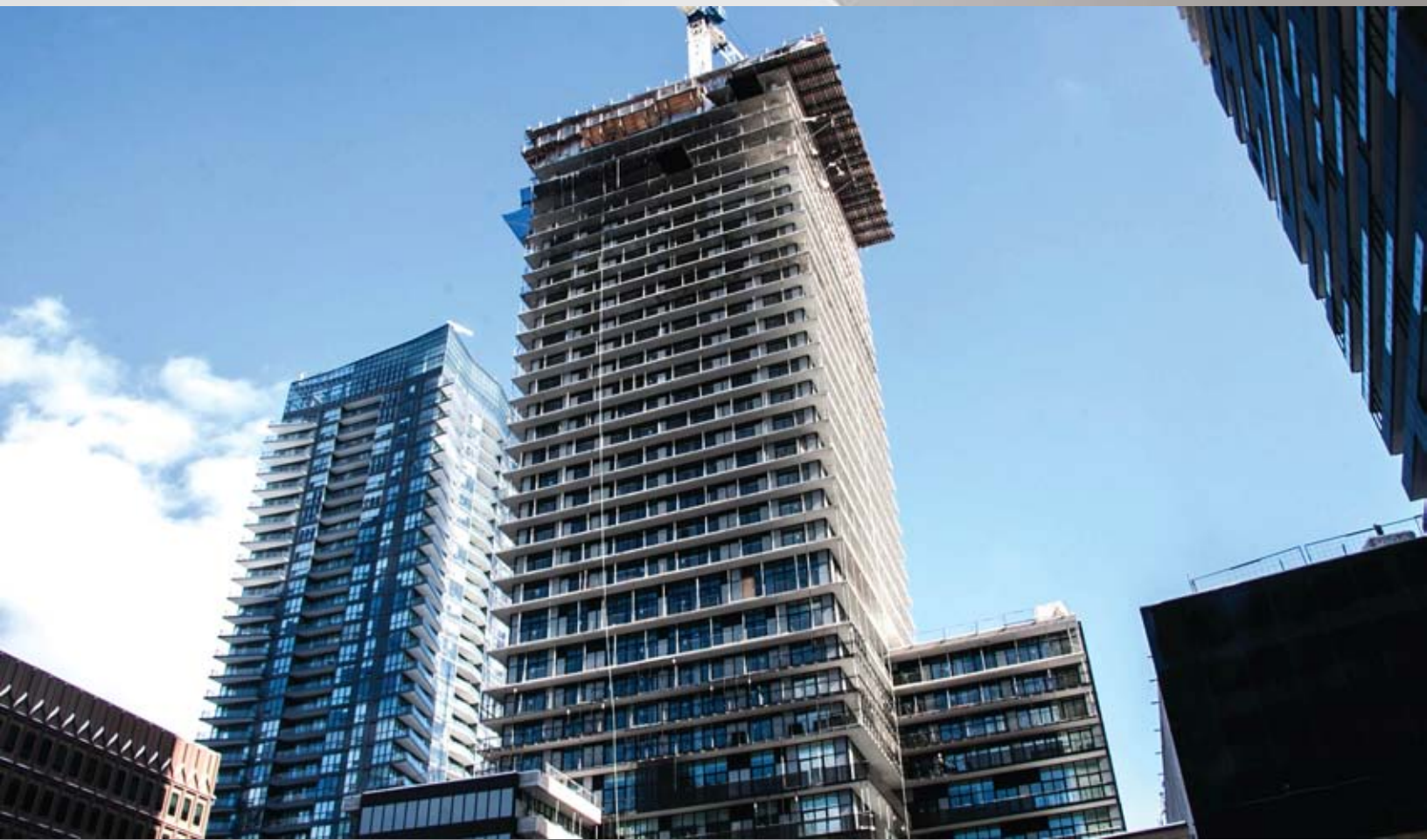
Gloucester

Just 15 minutes east of downtown Ottawa, buzz is building for Frontier, coming on board in 2019. With approval for three additional residential towers in this new conception of Gloucester.

GLOUCESTER

TORONTO_

MAJOR MARKET



Located among many transit options including subway and a new light rapid transit line in Toronto's midtown "downtown" with almost 500,000 people in a 5 km radius, the area boasts an average household income of more than \$156,000.

Yonge Eglinton Northeast Corner (ePLACE)

The first residential rental property to be completed in the RioCan Living portfolio, the 466 unit eCentral at ePlace is beside three storeys of retail in ePLACE, and is across the street from RioCan's newly renovated Yonge Eglinton Centre, one of Toronto's most popular midtown shopping destinations.



ePLACE

Situated at Yonge and Eglinton, the intersections of two of Toronto's busiest streets, RioCan's dynamic new mixed-use project will satisfy many shopping and living needs.

ePLACE

TORONTO_

MAJOR MARKET



Nearing completion, the dynamic King Portland Centre is a complete success: all of the 134 condominium units are sold. As well, the new office space is fully leased to Indigo and to Shopify. Finally, the property includes exciting boutique retail space fronting King Street West.

King Portland Centre (Kingly)

The King Portland location has it all: leading retailers, modern living and working, with convenient transit access, in a prime location in Toronto's vibrant "downtown west."



King Portland Centre

King Portland showcases RioCan in action in Toronto's trendy King West: complete with condominium units, office working spaces, and RioCan's signature retail component.

KING PORTLAND CENTRE

TORONTO_

MAJOR MARKET



Yonge Sheppard Centre is the "go-to" destination for the 340,000 people living within 5 kms of the site.

Yonge Sheppard Centre (Pivot)

A reimagined retail presence that features leading retailers such as Longo's, Winners, Shoppers Drug Mart, and three major banks. Yonge Sheppard Centre, at the intersection of two of Canada's busiest streets, and two major subway lines, with retail, two office towers and Pivot, a 36 storey, 361 unit rental residential tower is the perfect lifestyle destination rich in shopping and dining experiences.



Yonge Sheppard Centre

With an array of retailers, services, fitness and restaurants, Yonge Sheppard Centre is the first choice for thousands of people who shop at and frequent this site each day.

YONGE SHEPPARD CENTRE

The demographics in a 5 km radius say it all for Brentwood Village: average household income is in excess of \$140,000. The 163 unit Brio is perfectly situated in northwestern Calgary near the Crowchild Parkway, and with easy access to McMahon Stadium, the Foothills Hospital, and the University of Calgary.

CALGARY_

MAJOR MARKET



Brentwood Village (Brio)

This exciting mixed-use project features Brio, with approximately 10,000 sq. feet of retail and 163 rental units in a 12 storey building. The site is adjacent to RioCan's Brentwood Village, a 286,000 square foot shopping centre anchored by Safeway, located near the University of Calgary on the Northwest LRT line. The anticipated completion date is 2020.



Brentwood Village

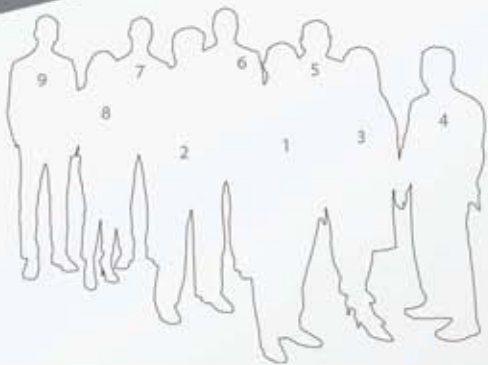
Brio – RioCan's leading retail and this state-of-the-art rental residential complex, will draw people to shop and live in this fast-growing area of Calgary.

BRENTWOOD VILLAGE



Management Team

A seasoned management team is growing RioCan based on decades of combined experience and insight. By design, RioCan is transforming Canada's retail, living and office landscapes.



- 1 Edward Sonshine, O.Ont., Q.C.**
Chief Executive Officer
- 2 Raghunath Davloor**
President and Chief Operating Officer
- 3 Qi Tang**
Senior Vice President and CFO
- 4 Jeff Ross**
Senior Vice President, Leasing & Tenant Coordination
- 5 Danny Kissoon**
Senior Vice President, Operations
- 6 Andrew Duncan**
Senior Vice President, Developments
- 7 John Ballantyne**
Senior Vice President, Asset Management
- 8 Jennifer Suess**
Senior Vice President, General Counsel and Corporate Secretary
- 9 Jonathan Gitlin**
Senior Vice President, Investments & Residential

PROPERTY PORTFOLIO

CANADA



ALBERTA



As at December 31, 2017	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
17004 & 17008 107th Avenue NW Edmonton, AB	100%	11,963	11,963	
5008 5020 97th Street NW, Edmonton, AB	100%	11,943	11,943	
Brentwood Village, Calgary, AB	100%	286,594	286,594	Bed Bath & Beyond, London Drugs, Safeway, Ashley Home Furniture
East Hills, Calgary, AB	40%	140,229	510,573	Walmart, Sport Chek, Bed Bath & Beyond, Michaels, Marshalls, Costco*
Edmonton Walmart Centre, Edmonton, AB	40%	127,516	370,400	Walmart, Golf Town, Totem Building Supplies*
Glenmore Landing, Calgary, AB	50%	73,031	146,061	Safeway
Jasper Gates Shopping Centre Edmonton, AB	100%	91,063	146,063	London Drugs, Safeway*
Lethbridge Towne Square, Lethbridge, AB	100%	76,651	76,651	Fit For Less
Lethbridge Walmart Centre Lethbridge, AB	100%	284,765	284,765	Walmart, Shoppers Drug Mart
Lowe's Sunridge Centre, Calgary, AB	100%	213,100	213,100	Lowe's, GoodLife Fitness, Golf Town
Market at Citadel Village, Edmonton, AB	100%	50,678	50,678	Shoppers Drug Mart
Mayfield Common, Edmonton, AB	50%	207,487	414,973	Winners, Save-On-Foods, JYSK
Mill Woods Town Centre, Edmonton, AB	40%	184,616	457,649	Safeway (Co-op), Canadian Tire, GoodLife Fitness
North Edmonton Cineplex Centre Edmonton, AB	100%	75,836	75,836	Cineplex
Northgate Village Shopping Centre Calgary, AB	100%	268,900	395,990	Safeway, Gold's Gym, JYSK, Staples, Home Depot*
RioCan Beacon Hill, Calgary, AB	100%	527,835	787,206	Canadian Tire, Winners, The Brick, Best Buy, GoodLife Fitness, Home Depot*, Costco*
RioCan Centre Grande Prairie Grande Prairie, AB	100%	279,983	379,983	Rona, Cineplex Odeon, London Drugs, Staples, Michaels, Walmart*
RioCan Meadows, Edmonton, AB	100%	309,184	409,184	Home Depot, Staples, Winners, Best Buy, Loblaws*
RioCan Shawnessy, Calgary, AB	100%	470,460	841,105	Lowe's, Sport Chek, Winners, Home Depot*, Walmart*, Co-op*, Canadian Tire*
RioCan Signal Hill Centre, Calgary, AB	100%	477,173	592,173	Lowe's, Winners, Indigo, Michaels, Staples, Loblaws*
Riverbend Square Shopping Centre Edmonton, AB	100%	138,654	138,654	Safeway
Sage Hill, Calgary, AB	50%	186,022	372,043	Walmart, Loblaws City Market, London Drugs
Southbank Centre, Calgary, AB	75%	108,910	421,227	Winners, Michaels, Save-On-Foods*, Home Depot*, Costco*
South Edmonton Common, Edmonton, AB	100%	430,418	981,488	London Drugs, The Brick, Home Outfitters, Michaels, Old Navy, Home Depot*, Walmart*, Loblaws*, Cineplex*, Staples*, Best Buy*

PROPERTY PORTFOLIO

As at December 31, 2017	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
South Trail Crossing, Calgary, AB	100%	311,684	311,684	Winners, HomeSense, Marshalls, Staples, Sport Chek
Southland Crossing Shopping Centre Calgary, AB	100%	132,063	132,063	Safeway
Summerwood Shopping Centre, Edmonton, AB	100%	83,980	83,980	Save-On-Foods, Shoppers Drug Mart
Timberlea Landing, Fort McMurray, AB	100%	104,307	104,307	Regional Municipality of Wood Buffalo

BRITISH COLUMBIA



Abbotsford Power Centre, Abbotsford, BC	100%	219,892	459,892	Lowe's, Winners, PetSmart, Costco*, Rona*
Chahko Mika Mall, Nelson, BC	100%	173,107	173,107	Walmart, Save-On-Foods
Clearbrook Town Square, Abbotsford, BC	100%	189,552	189,552	Safeway, GoodLife Fitness, Staples
Cowichan Commons, Duncan, BC	100%	186,629	186,629	Walmart
Dilworth Shopping Centre, Kelowna, BC	100%	197,405	197,405	Safeway, Staples, JYSK, World Gym
Grandview Corners, Surrey, BC	100%	529,319	614,319	Walmart, Future Shop, The Brick, Home Depot*
Impact Plaza, Surrey, BC	100%	133,657	133,657	T&T Supermarket
Parkwood Place, Prince George, BC	100%	370,260	370,260	Save-On-Foods, The Bay, London Drugs, Cineplex, Staples
RioCan Langley Centre, Langley, BC	100%	380,088	380,088	Leon's, Winners, HomeSense, Chapters, Michaels, Marshalls
Strawberry Hill Shopping Centre, Surrey, BC	100%	337,846	337,846	Home Depot, Cineplex, Winners, PetSmart, Sport Chek
Tillicum Centre, Victoria, BC	100%	466,356	466,356	Lowe's, Cineplex, London Drugs, Winners, Save-On-Foods
Vernon Square, Vernon, BC	100%	96,706	149,706	London Drugs, Safeway*

MANITOBA



Garden City, Winnipeg, MB	30%	113,904	379,681	Canadian Tire, Winners, Seafood City
Kildonan Crossing Shopping Centre Winnipeg, MB	100%	179,027	179,027	Safeway, PetSmart

NEW BRUNSWICK



Corbett Centre, Fredericton, NB	100%	237,457	457,457	Winners, Michaels, Bed Bath Beyond, Home Depot*, Costco*
Northumberland Square, Miramichi, NB	50%	51,664	103,328	Winners, Giant Tiger, PetSmart
Quispamsis Town Centre, Quispamsis, NB	100%	88,114	88,114	Shoppers Drug Mart, GoodLife Fitness

NEWFOUNDLAND



Property and Location	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Shoppers on Topsail, St. John's, NFLD	100%	29,690	29,690	Shoppers Drug Mart
Trinity Conception Square, Carbonear, NFLD	100%	182,155	182,155	Walmart, Dominion, Rossy

ONTARIO



85 Bloor Street West, Toronto, ON	100%	13,810	13,810	COS
1650-1660 Carling Avenue, Ottawa, ON	100%	142,188	142,188	Canadian Tire
1860 Bayview Avenue, Toronto, ON	100%	70,318	70,318	Whole Foods, Shoppers Drug Mart
1910 Bank Street, Ottawa, ON	100%	6,425	6,425	
1946 Robertson Road, Nepean, ON	100%	2,938	2,938	
2422 Fairview Street, Burlington, ON	100%	6,221	6,221	
2950 Carling Avenue, Ottawa, ON	100%	10,442	10,442	Pharma Plus
2955 Bloor Street West, Toronto, ON	100%	9,748	9,748	
2990 Eglinton Avenue East, Toronto, ON	100%	6,200	6,200	
404 Town Centre, Newmarket, ON	100%	267,954	267,954	Walmart, Metro
4055-4065 Carlingview Avenue, Ottawa, ON	100%	22,496	22,496	
410 King Street North, Waterloo, ON	100%	2,067	2,067	
549-555 College Street, Toronto, ON	50%	28,823	57,646	
506 & 510 Hespeler Road, Cambridge, ON	100%	12,515	12,515	
649 Queen Street West, Toronto, ON	100%	14,200	14,200	CB2
6666 Lundy's Lane, Niagara Falls, ON	100%	8,434	8,434	
735 Queenston Road, Hamilton, ON	100%	8,818	8,818	
Adelaide Centre, London, ON	100%	81,004	81,004	Metro
Ajax Marketplace, Ajax, ON	100%	70,724	70,724	Metro, Pharma Plus
Albion Centre, Etobicoke, ON	100%	376,579	376,579	Canadian Tire, No Frills
Belleville Stream Centre, Belleville, ON	100%	89,237	89,237	Stream International
Belleville Walmart Centre, Belleville, ON	100%	275,410	275,410	Walmart
Bellfront Shopping Centre, Belleville, ON	100%	109,995	159,995	Bed Bath & Beyond, Canadian Tire*
BMO-1293 Bloor Street West, Toronto, ON	100%	5,683	5,683	
BMO-145 Woodbridge Avenue, Vaughan, ON	100%	4,973	4,973	
BMO-1556 Bank Street, Ottawa, ON	100%	4,835	4,835	
BMO-2 King Street West, Bowmanville, ON	100%	5,584	5,584	
BMO-200 Ouelette Avenue, Windsor, ON	100%	17,047	17,047	
BMO-270 Dundas Street, London, ON	100%	20,269	20,269	
BMO-297 King Street East, Kingston, ON	100%	8,856	8,856	
BMO-519 Brant Street, Burlington, ON	100%	5,190	5,190	
BMO-79 Durham Street, Sudbury, ON	100%	24,075	24,075	
BMO-81 King Street West, Hamilton, ON	100%	5,550	5,550	
BMO-945 Smyth Road, Ottawa, ON	100%	8,532	8,532	

PROPERTY PORTFOLIO

As at December 31, 2017 Property and Location	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Burlington Mall, Burlington, ON	50%	299,848	712,848	Canadian Tire, Winners, HomeSense, Indigo, Denninger's, Sport Chek, GoodLife Fitness, The Bay*
Cambrian Mall, Sault Ste. Marie, ON	100%	134,807	316,638	Winners, Canadian Tire*, Loblaws*
Campus Estates, Guelph, ON	100%	72,859	72,859	No Frills
Chapman Mills Marketplace, Ottawa, ON	100%	451,673	566,673	Walmart, Winners, Staples, Indigo, Cineplex, Loblaws*
Cherry Hill Centre, Fergus, ON	100%	73,886	73,886	Zehrs
Churchill Plaza, Sault Ste. Marie, ON	100%	143,203	143,203	Metro
City View Plaza, Nepean, ON	100%	60,090	60,090	Giant Tiger, PartSource
Clarkson Crossing, Mississauga, ON	100%	213,077	213,077	Metro, Canadian Tire, Shoppers Drug Mart
Clarkson Village Shopping Centre Mississauga, ON	100%	63,835	63,835	HomeSense
Colborne Place, Brantford, ON	100%	70,406	70,406	No Frills
Coliseum Ottawa, Ottawa, ON	100%	109,260	109,260	Cineplex, Shoppers Drug Mart
Collingwood Centre, Collingwood, ON	100%	203,290	203,290	Fresh Co., Canadian Tire, Sport Chek, Bed, Bath & Beyond, Winners
Commissioners Court Plaza, London, ON	100%	94,140	94,140	Food Basics
Dufferin Plaza, Toronto, ON	100%	70,100	70,100	Staples
Dundas 427 Marketplace, Mississauga, ON	100%	97,885	97,885	Staples
Eagle's Landing, Vaughan, ON	100%	175,672	175,672	Yummy Market
Eastcourt Mall, Cornwall, ON	50%	81,487	162,974	No Frills, Urban Planet
Elmvale Acres, Ottawa, ON	100%	146,699	146,699	Loblaws, Pharma Plus
Empress Walk, Toronto, ON	100%	180,829	238,829	Cineplex, Best Buy, Loblaws*
Fairlawn Plaza, Ottawa, ON	100%	8,322	8,322	
Fallingbrook Shopping Centre, Orleans, ON	100%	97,145	97,145	Metro, Shoppers Drug Mart
Five Points Shopping Centre, Oshawa, ON	100%	191,034	191,034	Metro, LA Fitness, JYSK
Flamborough Walmart Centre Flamborough, ON	100%	300,292	300,292	Walmart, Rona, Staples
Flamborough Power Centre, Flamborough, ON	100%	194,724	194,724	Treasure Hunt, Value Village
Frontenac Mall, Kingston, ON	30%	84,057	280,191	Food Basics, Value Village, Boys and Girls Club of Kingston
Galaxy Centre, Owen Sound, ON	100%	91,563	91,563	No Frills, Cineplex
Garrard & Taunton, Whitby, ON	100%	146,835	146,835	Lowe's
Gates of Fergus, Fergus, ON	100%	71,737	71,737	Giant Tiger, Habitat for Humanity
Glendale Marketplace, Pickering, ON	100%	53,963	53,963	Your Independent Grocer, Pharma Plus
Goderich Walmart Centre, Goderich, ON	100%	94,283	202,859	Walmart, Canadian Tire*, Zehrs*
GoodLife Plaza, St. Catharines, ON	100%	144,983	144,983	GoodLife Fitness, Canadian Tire (Call centre)
Grant Crossing, Ottawa, ON	100%	237,405	365,345	Winners, HomeSense, Michaels, Bed Bath & Beyond, Lowe's*
Green Lane Centre, Newmarket, ON	67%	106,817	417,668	Bed Bath & Beyond, Michaels, PetSmart, Costco*, Loblaws*
Halton Hills Shopping Plaza Georgetown, ON	100%	73,030	73,030	Food Basics

PROPERTY PORTFOLIO

As at December 31, 2017	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Hamilton Highbury Plaza, London, ON	100%	5,269	5,269	
Hamilton Walmart Centre, Hamilton, ON	100%	312,914	312,914	Walmart, Winners, Staples
Hartsland Market Square, Guelph, ON	100%	108,722	108,722	Zehrs
Hawkesbury Centre, Hawkesbury, ON	100%	72,466	72,466	
Heart Lake Town Centre, Brampton, ON	100%	123,572	123,572	Metro
Herongate Mall, Ottawa, ON	75%	104,129	138,838	Metro, GoodLife Fitness, PetSmart
Highbury Shopping Plaza, London, ON	100%	70,981	70,981	LA Fitness
Hunt Club Centre, Ottawa, ON	100%	67,186	67,186	Metro
Hunt Club Centre II, Ottawa, ON	100%	143,815	143,815	Lowe's
Huron & Highbury, London, ON	100%	87,969	87,969	Shoppers Drug Mart
Innes Road Centre, Gloucester, ON	100%	47,512	167,512	PetSmart, Costco*
Kanata Centrum Shopping Centre Kanata, ON	100%	286,336	386,336	Walmart, Chapters, Loblaws
Kendalwood Park Plaza, Whitby, ON	100%	158,688	158,688	Fresh Co., Value Village, Shoppers Drug Mart
Kennedy Commons, Scarborough, ON	50%	186,618	454,235	Metro, The Brick, LA Fitness, Chapters, Michaels, Ashley Furniture
Keswick Walmart, Keswick, ON	75%	120,363	160,484	Walmart
King & Portland, Toronto, ON	50%	39,308	78,615	Shopify (office), Indigo (office)
King George Square, Belleville, ON	100%	71,985	71,985	Metro
King Plaza, Oshawa, ON	100%	34,202	34,202	Shoppers Drug Mart
Lawrence Square, Toronto, ON	100%	656,521	656,521	Fortino's, Canadian Tire, Marshalls, HomeSense, PetSmart, Hudson's Bay Company (office)
Lincoln Fields Shopping Centre, Ottawa, ON	100%	284,947	284,947	Metro
London Plaza, London, ON	100%	122,183	122,183	Gold's Gym, Value Village
Markington Square, Scarborough, ON	100%	173,029	173,029	Metro, GoodLife Fitness
Meadow Ridge Plaza, Ajax, ON	100%	111,762	111,762	Sobeys, GoodLife Fitness
Meadowlands Power Centre, Ancaster, ON	100%	145,605	589,209	Best Buy, Sport Chek, Michaels, PetSmart, Costco*, Home Depot*, Sobeys*, Staples*
Merivale Market, Ottawa, ON	75%	59,136	78,848	Food Basics, Shoppers Drug Mart
Millcroft Shopping Centre, Burlington, ON	50%	152,564	357,360	Metro, Movati, Value Village, Canadian Tire*
Mississauga Plaza, Mississauga, ON	100%	175,672	175,672	Fresh Co., Talize, LA Fitness
New Liskeard Walmart Centre New Liskeard, ON	100%	110,522	155,278	Walmart, Canadian Tire*
Niagara Falls Plaza, Niagara Falls, ON	100%	79,562	79,562	LA Fitness
Niagara Square, Niagara Falls, ON	30%	72,893	242,976	Cineplex, Winners, JYSK, World Gym, The Brick
Norwest Plaza, Kingston, ON	100%	39,924	39,924	GoodLife Fitness
Oakridge Centre, London, ON	100%	34,066	139,566	Pharma Plus, Loblaws*
Pine Plaza, Sault Ste. Marie, ON	100%	42,455	42,455	Food Basics
Queensway Cineplex, Toronto, ON	50%	61,488	122,976	Cineplex
RioCan Centre Barrie, Barrie, ON	100%	244,589	244,589	Loblaws, Lowe's, Mountain Equipment Co-op
RioCan Centre Belcourt, Orleans, ON	60%	156,369	402,989	Food Basics, The Athletic Club, Landmark Cinemas, Toys R Us, Lowe's*
RioCan Centre Burloak, Oakville, ON	100%	454,623	552,623	Cineplex, Home Outfitters, Longo's, Home Depot*

PROPERTY PORTFOLIO

As at December 31, 2017	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
RioCan Centre Kingston, Kingston, ON	100%	635,048	756,093	Cineplex, Staples, Winners, HomeSense, Michaels, Best Buy, Home Depot*
RioCan Centre London North, London, ON	100%	105,040	165,040	Indigo, PetSmart, Loblaws*
RioCan Centre London South, London, ON	100%	139,622	139,622	Metro
RioCan Centre Merivale, Nepean, ON	100%	200,177	200,177	Your Independent Grocer, Winners, Value Village
RioCan Centre Milton, Milton, ON	100%	171,465	291,465	Cineplex, LA Fitness, Home Depot*, Longo's*
RioCan Centre Newmarket, Newmarket, ON	40%	26,688	66,721	Staples, Mark's Work Wearhouse
RioCan Centre Sudbury, Sudbury, ON	100%	403,797	669,193	Cineplex, Staples, Chapters, Michaels, Winners, Costco*, Home Depot*
RioCan Centre Vaughan, Vaughan, ON	100%	262,336	262,336	Walmart
RioCan Centre Windsor, Windsor, ON	100%	239,420	349,420	Cineplex, The Brick, PetSmart, Staples, Costco*
RioCan Colossus Centre, Vaughan, ON	100%	572,228	702,228	Cineplex, Marshalls, Bed Bath & Beyond, HomeSense, Buy Buy Baby, Staples, Golf Town, Costco*
RioCan Durham Centre, Ajax, ON	100%	891,888	1,272,888	Walmart, Canadian Tire, Cineplex, Marshalls, Winners, HomeSense, Sport Chek, Chapters, Michaels, Home Depot*, Loblaws*, Costco*
RioCan Elgin Mills Crossing Richmond Hill, ON	100%	320,325	441,325	Costco, Michaels, Staples, Home Depot*
RioCan Fairgrounds, Orangeville, ON	100%	366,437	510,512	Walmart, Leon's, Cineplex, Winners, Canadian Tire*, Home Depot*
RioCan Georgian Mall, Barrie, ON	50%	242,620	601,755	The Bay, Sport Chek, Home Sense, H&M, F21 Red
RioCan Grand Park, Mississauga, ON	100%	118,681	118,681	Winners, Shoppers Drug Mart, Staples
RioCan Gravenhurst, Gravenhurst, ON	100%	149,548	149,548	Canadian Tire, Sobeys
RioCan Hall, Toronto, ON	100%	227,326	227,326	Cineplex, Marshalls, Michaels, GoodLife Fitness
RioCan Leamington, Leamington, ON	100%	192,851	192,851	Walmart, Metro
RioCan Leaside Centre, Toronto, ON	100%	133,035	133,035	Canadian Tire, PetSmart
RioCan Marketplace Toronto, Toronto, ON	67%	114,298	447,438	Winners, Loblaws*, Home Depot*
RioCan Niagara Falls, Niagara Falls, ON	100%	295,164	393,739	Staples, Zehrs, Home Depot*
RioCan Oakville Place, Oakville, ON	50%	231,018	462,035	The Bay, H&M, Sport Chek, Pusateri's, Shoppers Drug Mart
RioCan Orleans, Cumberland, ON	100%	182,251	297,251	Metro, JYSK, Staples, Home Depot*
RioCan Renfrew Centre, Renfrew, ON	100%	53,099	127,099	Giant Tiger, No Frills*
RioCan Scarborough Centre, Scarborough, ON	100%	326,823	326,823	Costco, PetSmart, Staples, LA Fitness, Al's Premium Food Market
RioCan St. Laurent, Ottawa, ON	100%	308,031	308,031	Lowe's, Adonis, Food Basics, Winners
RioCan Thickson Ridge, Whitby, ON	100%	362,031	492,031	Winners, Ikea, JYSK, Bed Bath & Beyond, Home Sense, PetSmart, Home Depot*
RioCan Thickson Ridge – Bed Bath & Beyond, Whitby, ON	31%	8,749	28,222	Bed Bath & Beyond
RioCan Victoria, Whitby, ON	50%	49,290	98,579	Flying Squirrel, Reptilia
RioCan Warden, Scarborough, ON	100%	230,967	230,967	Lowe's, Marshalls, Michaels
RioCan West Ridge Place, Orillia, ON	100%	206,519	336,519	Food Basics, Cineplex, Home Depot*
RioCan Yonge Eglinton Centre, Toronto, ON	100%	1,059,136	1,059,136	Cineplex, Indigo, Metro, Toys R Us, Winners

PROPERTY PORTFOLIO

As at December 31, 2017 Property and Location	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
RioCentre Brampton, Brampton, ON	100%	103,607	103,607	Food Basics
RioCentre Kanata, Ottawa, ON	100%	108,562	108,562	Sobeys, Pharma Plus
RioCentre Newmarket, Newmarket, ON	100%	92,688	92,688	Metro, Shoppers Drug Mart
RioCentre Oakville, Oakville, ON	100%	106,884	106,884	Food Basics, Shoppers Drug Mart
RioCentre Thornhill, Thornhill, ON	100%	140,370	140,370	No Frills, Winners, HomeSense
Sandalwood Square Shopping Centre Mississauga, ON	100%	96,571	96,571	Value Village
Sheppard Centre, Toronto, ON	50%	236,659	473,318	Winners, Shoppers Drug Mart, Longo's, LA Fitness
Sherwood Forest Mall, London, ON	100%	218,758	218,758	Food Basics, Goodwill, Shoppers Drug Mart, GoodLife Fitness
Shoppers City East, Ottawa, ON	62.8%	26,066	41,507	Shoppers Drug Mart
Shoppers Drug Mart Pembroke Pembroke, ON	100%	17,020	17,020	Shoppers Drug Mart
Shoppers on Argyle, Caledonia, ON	100%	17,024	17,024	Shoppers Drug Mart
Shoppers World Brampton, Brampton, ON	100%	691,926	691,926	Canadian Tire, Winners, Staples, Oceans, JYSK, Giant Tiger, GoodLife Fitness
Shoppers World Danforth, Toronto, ON	100%	326,303	326,303	Lowe's, Metro, LA Fitness, Staples
Shoppes on Avenue, Toronto, ON	100%	20,884	20,884	Pharma Plus
Shoppes on Queen West, Toronto, ON	100%	89,419	89,419	Loblaws, Winners
Silver City Gloucester, Gloucester, ON	80%	118,944	150,608	Cineplex, Chapters
South Cambridge Shopping Centre Cambridge, ON	100%	189,739	189,739	Zehrs, Home Hardware
South Hamilton Square, Hamilton, ON	100%	298,527	298,527	Fortino's, Flying Squirrel, JYSK, GoodLife Fitness
Southgate Shopping Centre, Ottawa, ON	100%	72,627	72,627	Metro, Shoppers Drug Mart
Spring Farm Marketplace, Vaughn, ON	100%	72,896	72,896	Sobeys, Shoppers Drug Mart
Stratford Centre, Stratford, ON	100%	132,224	132,224	Metro, Michaels, World Gym, Value Village
Sunnybrook Plaza, Toronto, ON	50%	25,507	51,013	Pharma Plus
Tanger Outlets Cookstown, Cookstown, ON	50%	155,301	310,602	Under Armour, Coach, Tommy Hilfiger, Nike, Polo Ralph Lauren, H&M
Tanger Outlets Ottawa, Ottawa, ON	50%	170,269	340,537	Polo Ralph Lauren, Old Navy, Nike, Saks off Fifth, Under Armour, Coach, Marshalls
The Stockyards, Toronto, ON	50%	252,227	504,454	Nations, Winners, Best Buy, Sport Chek, HomeSense, Michaels
The Shops of Summerhill, Toronto, ON	75%	23,115	30,820	
Timiskaming Square, New Liskeard, ON	50%	42,853	85,705	Food Basics
Timmins Square, Timmins, ON	30%	117,140	390,468	No Frills, Winners, Sport Chek, Urban Planet
Trafalgar Ridge Shopping Centre Oakville, ON	100%	131,250	131,250	Winners/HomeSense, GoodLife Fitness
Trenton Walmart Centre, Trenton, ON	100%	147,441	147,441	Walmart
Trinity Common Brampton, Brampton, ON	100%	613,901	828,901	Cineplex, Metro, Winners, Marshalls, HomeSense, Staples, Sport Chek, Michaels, Canadian Tire*, Home Depot*
Trinity Crossing, Ottawa, ON	100%	191,465	371,465	Winners/HomeSense, Michaels, Value Village, Loblaws*

PROPERTY PORTFOLIO

As at December 31, 2017	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
University Plaza, Dundas, ON	100%	185,779	185,779	Metro, Shoppers Drug Mart
Victoria Crossing, Scarborough, ON	100%	76,515	76,515	Fresh Co.
Viewmount Centre, Ottawa, ON	100%	127,270	127,270	Metro, Best Buy, HomeSense
Walker Place, Burlington, ON	100%	69,857	69,857	Fresh Co.
Walker Towne Centre, Windsor, ON	100%	39,768	39,768	
West Side Place, Port Colborne, ON	100%	93,123	93,123	No Frills
Westgate Shopping Centre, Ottawa, ON	100%	165,660	165,660	Shoppers Drug Mart
Wharncliffe Centre, London, ON	100%	60,744	60,744	No Frills
White Shield Plaza, Toronto, ON	100%	148,770	148,770	Lone Thai Grocery
Woodview Place, Burlington, ON	100%	145,401	145,401	Metro
Yonge & Erskine Avenue, Toronto, ON	50%	6,862	13,723	
Yorkville, Toronto, ON	50%	8,473	16,945	

PRINCE EDWARD ISLAND



Charlottetown Mall, Charlottetown, PEI	100%	355,318	355,318	Cineplex, Loblaws, Sport Chek, Winners, West Royalty Fitness, Urban Planet, H&M
--	------	---------	---------	---

QUEBEC



2335 Lapiniere Boulevard, Brossard, PQ	100%	2,259	2,259	
541 Saint-Joseph Boulevard Gatineau, PQ	100%	2,584	2,584	
BMO-279 Rue St Charles Ouest Longueuil, PQ	100%	5,015	5,015	
Centre Carnaval LaSalle, LaSalle, PQ	100%	208,563	208,563	Super C, L'Aubainerie
Centre Carnaval Montreal, Montreal, PQ	100%	67,815	67,815	Super C
Centre Carnaval Pierrefonds Pierrefonds, PQ	100%	129,589	129,589	Super C
Centre Carnaval Trois Rivieres Trois Rivieres, PQ	100%	112,955	112,955	Super C
Centre Concorde, Laval, PQ	50%	31,649	63,298	IGA
Centre Rene A. Robert Centre Ste. Therese, PQ	50%	37,513	75,025	IGA
Centre RioCan Kirkland, Kirkland, PQ	100%	319,445	319,445	Cineplex, Winners
Centre Sicard, Ste. Therese, PQ	100%	106,329	106,329	IGA
Centre St. Jean St. Jean Sur Richelieu, PQ	100%	104,280	104,280	IGA
Centre St. Julie, Ste. Julie, PQ	50%	30,389	60,778	IGA
Centre St. Martin, Laval, PQ	100%	248,974	248,974	Provigo, Giant Tiger, World Gym
Desserte Ouest, Laval, PQ	100%	87,970	87,970	Staples, JYSK, Gold's Gym
Galeries Laurentides, St. Antoine, PQ	100%	452,363	452,363	Maxi, World Gym, Urban Planet
Galeries Mille-Iles, Rosemere, PQ	100%	252,450	252,450	Maxi, World Gym, Leon's, Staples

PROPERTY PORTFOLIO

As at December 31, 2017	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Granby, Granby, PQ	100%	48,870	48,870	L'Aubainerie
Lachute Walmart Centre, Lachute, PQ	100%	78,761	78,761	Walmart
Les Factories Tanger Bromont Bromont, PQ	50%	81,187	162,373	Atmosphere, Urban Planet, Reebok
Les Factories Tanger St. Sauveur Prevost, PQ	50%	56,996	113,992	Tommy Hilfiger, Atmosphere
Les Galeries Lachine, Montreal, PQ	100%	167,383	167,383	Maxi, Shoppers Drug Mart, Rossy
Levis, Levis, PQ	100%	19,003	19,003	
Mega Centre Notre Dame Sainte Dorothée, PQ	100%	421,617	483,515	Winners/HomeSense, L'Aubainerie, Shoppers Drug Mart, Sports Experts, Super C*
Mega Centre Rive-Sud, Levis, PQ	100%	204,759	393,628	Walmart, Canadian Tire*, Home Depot*
Place Carnaval Laval, Laval, PQ	100%	108,214	108,214	Adonis
Place Newman, LaSalle, PQ	100%	181,463	181,463	Maxi, Winners, Rossy
RioCan Gatineau, Gatineau, PQ	100%	300,007	300,007	Walmart, Canadian Tire, Super C
RioCan Greenfield, Greenfield Park, PQ	100%	352,516	352,516	Maxi, Winners, Staples, Guzzo Cinemas, JYSK, Giant Tiger
Place La Prairie, La Prairie, PQ	50%	35,467	70,934	IGA
RioCan La Gappe, Gatineau, PQ	100%	372,883	372,883	Walmart, Winners, Michaels
Shoppers Drug Mart Repentigny Repentigny, PQ	100%	17,050	17,050	Shoppers Drug Mart
Silver City Hull, Hull, PQ	100%	84,590	499,775	Cineplex, Rona*, Walmart*, Maxi*, Super C*, Winners*
St. Hyacinthe Walmart Centre Ste. Hyacinthe, PQ	100%	166,930	254,430	Walmart, Staples, Canadian Tire*
Vaudreuil Shopping Centre Vaudreuil-Dorion, PQ	100%	117,773	228,273	Staples, Canadian Tire*, Super C*

REAL ESTATE PORTFOLIO KEY FACTS as at December 31, 2017 (all metrics stated at RioCan's interest)

Net Leasable Area (NLA) (thousands of sq.ft.):		Retail	Office	Residential	Total
Income Producing Properties		39,870	1,937	—	41,807
Properties Under Development (i)		833	741	718	2,292
Total		40,703	2,678	718	44,099
Number of Tenancies					6,309

(i) Includes the NLA for only active projects with detailed costs estimates, but excludes NLA for air rights sales and residential inventory.

Committed Occupancy

Retail	96.6%
Office	96.0%
Total	96.6%

Geographic Diversification

	Percentage of annualized rental revenue	Number of properties		Total
		Income producing properties	Properties under development (i)	
Ontario	66.0%	186	13	199
Alberta	14.8%	30	4	34
Quebec	8.8%	35	—	35
British Columbia	7.7%	13	—	13
Eastern Canada	2.0%	6	—	6
Manitoba	0.7%	2	—	2
	100.0%	272	17	289

(i) Given the multi-phase nature of certain development projects, a single investment property could have more than one project, as discussed in the *Properties Under Development* section of this MD&A. Therefore, the number of projects should not be viewed as equivalent to number of properties under development.

Anchor and National Tenants

Percentage of:	
Annualized rental revenue	84.8%
Total NLA	84.6%

Top Ten Sources of Revenue by Property Tenant

Rank	Tenant	Percentage of annualized rental revenue	Weighted average remaining lease term (yrs)
1	Loblaws/Shoppers Drug Mart (i)	4.8%	7.5
2	Canadian Tire Corporation (ii)	4.3%	4.8
3	Walmart	4.2%	9.3
4	Cineplex/Galaxy Cinemas	3.9%	7.4
5	Winners/HomeSense/Marshalls	3.9%	6.8
6	Metro/Super C/Loeb/Food Basics	3.4%	6.7
7	Cara/Prime Restaurants/St-Hubert	1.8%	7.0
8	Lowe's	1.8%	10.4
9	Dollarama	1.6%	6.3
10	Sobeys/Safeway	1.6%	8.4
		31.3%	7.3

(i) Loblaws/Shoppers Drug Mart includes No Frills, Fortinos, Zehrs Markets, Joe Fresh and Maxi.

(ii) Canadian Tire Corporation includes Canadian Tire, PartSource, Mark's, Sport Chek, Sports Experts, National Sports and Atmosphere.

Property Lease Expiries

	Total	2018	2019	2020	2021	2022
NLA (thousands of sq. ft)	41,807	3,424	5,325	4,935	4,911	4,071
Average expiring rent per square foot	\$17.75	\$19.23	\$18.44	\$17.51	\$18.48	\$20.23

RioCan

FINANCIAL REVIEW MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

Management's Discussion and Analysis

28	ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS	60	ASSET PROFILE	86	Hedging Activities
28	FORWARD-LOOKING INFORMATION	60	Investment Property	87	Trust Units
29	BUSINESS OVERVIEW, OUTLOOK AND STRATEGY	60	Income Property Acquisitions During 2017	88	Preferred Units
36	SUSTAINABILITY	60	Income Property Dispositions During 2017	88	Distributions to Unitholders
36	PRESENTATION OF FINANCIAL INFORMATION AND NON-GAAP MEASURES	61	Co-ownership Arrangements	90	QUARTERLY RESULTS AND TREND ANALYSIS
41	RESULTS OF OPERATIONS	64	Capital Expenditures on Income Properties	93	SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES
41	Selected Annual Information	65	Properties Under Development	94	FUTURE CHANGES IN ACCOUNTING POLICIES
42	2017 Financial Highlights	75	Residential Inventory	95	DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING
43	Operating Income	76	Mortgages and Loans Receivable	96	RELATED PARTY TRANSACTIONS
44	Net Operating Income (NOI)	77	CAPITAL RESOURCES AND LIQUIDITY	96	RISKS AND UNCERTAINTIES
45	Other Income	77	Liquidity and Cash Management		
46	Other Expenses	77	Capital Management Framework		
47	Funds from Operations (FFO)	77	Debt Metrics		
49	Adjusted Cashflow from Operations (ACFO)	79	Credit Ratings		
51	OPERATIONS	80	Capital Structure		
52	Occupancy and Leasing	80	Debentures Payable		
		81	Mortgages Payable		
		83	Lines of Credit and Other Bank Loans		
		83	Total Debt Profile		
		84	Liquidity		
		86	Guarantees		

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable a reader to assess our results of operations and financial condition for the three months and year ended December 31, 2017 (Q4 2017 and 2017, respectively). This MD&A is dated February 13, 2018 and should be read in conjunction with our annual audited consolidated financial statements and related notes for the year ended December 31, 2017 (2017 Annual Consolidated Financial Statements). Unless the context indicates otherwise, references to "RioCan", "the Trust", "we", "us" and "our" in this MD&A refer to RioCan Real Estate Investment Trust and its consolidated operations. Unless otherwise specified, all amounts are based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These documents, as well as additional information relating to RioCan, including our most recently filed Annual Information Form (AIF), have been filed electronically with Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and may be accessed through the SEDAR website at www.sedar.com or RioCan's website at www.riocan.com.

Unless otherwise specified, all information in this MD&A refers to the results of our continuing operations only, amounts are in thousands of Canadian dollars and percentage changes are calculated using whole numbers.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. This information includes, but is not limited to, statements made in the *2017 Financial Highlights, Business Overview, Outlook and Strategy, Asset Profile and Capital Resources and Liquidity* sections, and other statements concerning RioCan's objectives, its strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking information generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. All forward-looking information in this MD&A is qualified by the following cautionary statements.

Forward-looking information is not a guarantee of future events or performance and, by its nature, is based on RioCan's current estimates and assumptions, which are subject to numerous risks and uncertainties, including those described under the *Risks and Uncertainties* section in this MD&A which could cause actual events or results to differ materially from the forward-looking information contained in this MD&A. Those risks and uncertainties include, but are not limited to, those related to: liquidity and general market conditions; tenant concentrations and related risk of bankruptcy or restructuring (and the terms of any bankruptcy or restructuring proceeding); occupancy levels and defaults, including the failure to fulfill contractual obligations by the tenant or a related party thereof; lease renewals and rental increases; the ability to re-lease and find new tenants for vacant space; retailer competition; potential changes in Ontario's rent control legislation; access to debt and equity capital; interest rate and financing risk; joint ventures and partnerships; the relative illiquidity of real property, the timing and ability of RioCan to sell certain properties; the valuations to be realized on property sales relative to current IFRS values; and the Trust's ability to utilize the capital gain refund mechanism; unexpected costs or liabilities related to acquisitions and dispositions; development risk associated with construction commitments, project costs and related approvals; environmental matters; litigation; reliance on key personnel; unitholder liability; income, sales and land transfer taxes; and credit ratings.

Our U.S. subsidiary qualified as a REIT for U.S. income tax purposes up to May 25, 2016, subsequent to the closing date of the sale of our U.S. property portfolio. For U.S. income tax purposes, the subsidiary distributed all of its U.S. taxable income and is entitled to deduct such distributions against its taxable income. The subsidiary's qualification as a REIT depended on the REIT's satisfaction of certain asset, income, organizational, distribution, unitholder ownership and other requirements up until May 25, 2016. Our U.S. subsidiary was subject to a 30% or 35% withholding tax on distributions of its U.S. taxable income to Canada. We did not distribute any withholding taxes paid or payable to our unitholders related to the disposition. Should RioCan's U.S. subsidiary no longer qualify as a U.S. REIT for U.S. tax purposes prior to May 25, 2016, certain statements contained in this MD&A may need to be modified.

General economic conditions, including interest rate fluctuations, may also have an effect on RioCan's results of operations. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: a stable retail environment; relatively low and stable interest costs; a continuing trend toward land use intensification, including residential development in urban markets; access to equity and debt capital markets to fund, at acceptable costs, future capital requirements and to enable our refinancing of debts as they mature; the availability of investment opportunities for growth in Canada; and the timing and ability for RioCan to sell certain properties, the valuations to be realized on property sales relative to current IFRS values, and the Trust's ability to utilize the capital gain refund mechanism. For a description of additional risks that could cause actual results to materially differ from management's current expectations, refer to *Risks and Uncertainties* in this MD&A and *Risks and Uncertainties* in RioCan's AIF. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with this forward-looking information. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable Canadian securities laws, and as such the financial outlook may not be appropriate for purposes other than this MD&A. The forward-looking information contained in this MD&A is made as of the date of this MD&A, and should not be relied upon as representing RioCan's views as of any date subsequent to the date of this MD&A. Management undertakes no obligation, except as required by applicable law, to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW, OUTLOOK AND STRATEGY

Business Overview

RioCan is an unincorporated "closed-end" real estate investment trust listed on the Toronto Stock Exchange (TSX) under the symbol REI.UN. We are Canada's largest real estate investment trust based on market capitalization with a total enterprise value of approximately \$13.9 billion at December 31, 2017. RioCan is a fully integrated REIT that owns, manages and develops high quality retail-focused, increasingly mixed-use properties in Canada's largest retail focused portfolio with ownership interests in 289 retail and mixed-use properties, including 17 properties under development, containing an aggregate net leasable area (NLA) of 44,099,000 square feet.

RioCan's property portfolio includes grocery anchored, new format retail, urban retail, mixed-use and non-grocery anchored centres, of which 236 properties are 100% owned (233 income properties and 3 properties under development) and 53 are co-owned and governed by co-ownership agreements (including 14 properties under development). RioCan's primary co-ownership arrangements are with Allied Properties REIT (Allied); Canada Pension Plan Investment Board (CPPIB); KingSett Capital (KingSett); Tanger Factory Outlet Centres, Inc. (Tanger); and Trinity Development Group (Trinity). In addition, the Trust also owns partial interests in 13 properties through joint ventures with Hudson's Bay Company (HBC) and Marketvest Corporation/Dale-Vest Corporation which are included in our equity accounted investments in the 2017 Annual Consolidated Financial Statements.

Operating results

For the year ended December 31, 2017, RioCan reported net income per unit of \$2.18 and FFO per unit of \$1.79, with FFO per unit growth of 6.3% from 2016. Operationally, the Trust reported same property NOI growth of 2.1%, its highest annual same property NOI growth since 2010, and 849,000 square feet of completed developments, all at RioCan's interest. Same property NOI for RioCan's properties in Canada's six major markets increased by 2.2% as compared to same property NOI growth of 1.7% by its secondary markets properties. Committed occupancy and in-place occupancy remained high at 96.6% and 95.6%, respectively, despite Sears store closures which accounted for 0.8% of the Trust's NLA as of September 30, 2017. The Trust's major markets properties' committed occupancy was 97.6% as of December 31, 2017, 1.1% higher than as of December 31, 2016.

RioCan continues to report strong results in Q4 2017 with net income per unit of \$0.64 and FFO per unit of \$0.44, with FFO per unit growth of 9.3% from Q4 2016. With respect to operating performance, the Trust reported same property NOI growth of 2.9%, its highest quarterly same property NOI growth since Q4 2010. Same property NOI for RioCan's properties in Canada's six major markets increased by 3.0% as compared to same property NOI growth of 2.6% by its secondary markets properties. In addition 117,000 square feet of developments were completed during the quarter, all at RioCan's interest.

Based on annualized rental revenues as of December 31, 2017, 76.1% of the Trust's annualized rent revenue is generated from Canada's six major markets, including 40.9% from the Greater Toronto Area (GTA), each increased by 0.9% from the same measures as of September 30, 2017. On a NLA basis, 70.3% of the Trust's income producing properties NLA is in Canada's six major markets, an increase of 1.6% as compared to 68.7% as of September 30, 2017. NLA from the GTA accounts for 34.9% of the Trust's NLA as of December 31, 2017, an increase of 0.7% from 34.2% as of September 30, 2017. All of our development properties are located in the six Canadian major markets.

RioCan is making significant progress on the re-leasing of the former Sears premises, with leases completed or in the final stages of negotiation, which will generate approximately 130% of the lost annual rental revenue while representing 320,000 square feet (at RioCan's interest) or 84% of the vacated Sears space.

Progress on Acceleration of Canadian Major Markets Focus

On October 2, 2017, the Trust announced its plan to accelerate its portfolio focus in Canada's six major markets through the sale of approximately 100 properties located primarily in secondary markets across Canada over the next two to three years. Refer to the *Strategy* section of this MD&A for further details.

As of February 13, 2018, four months since the strategy's announcement, the Trust has either completed or entered into firm agreements to sell \$511.9 million of properties in secondary markets at a weighted average capitalization rate of 6.07% based on in-place net operating income (NOI), representing approximately 25% of the announced disposition target. The deals consist of the following:

- A firm agreement to sell seven properties to CT REIT in Hamilton, Orillia, Sudbury, Collingwood and St. Catharines in Ontario, Oliver, British Columbia and Yorkton, Saskatchewan at an aggregate sale price of \$200.0 million and a weighted average capitalization rate of 6.12% based on in-place NOI. The sale of five properties were closed in December 2017 at a sales price of \$135.2 million, with \$21.7 million of mortgages repaid on closing. The sales of the remaining two properties are expected to be completed during the first quarter of 2018.
- The sale of a 50% non-managing interest of a property in Fredericton, New Brunswick in December 2017 to the property's co-owner for a sale price of \$10.0 million at a capitalization rate of 10.20% based on in-place NOI. RioCan provided a vendor take-back mortgage of \$2.5 million.
- A firm agreement to sell two properties in Kelowna and Vernon in British Columbia at a sale price of \$85.0 million at a weighted average capitalization rate of 5.45% based on in-place NOI, subject to customary closing conditions. On the expected closing date in the first quarter of 2018, the buyer will assume the mortgage payable of \$32.7 million and RioCan will provide a vendor take-back mortgage of \$7.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- A firm agreement to sell four properties in Flamborough, Guelph and Orangeville in Ontario and in Duncan, British Columbia for a sale price of \$216.9 million at a weighted average capitalization rate of 6.06% based on in-place NOI, with \$67.5 million of mortgages payable to be repaid upon expected deal closing in April 2018.

In addition to the above \$511.9 million closed and firm deals, the Trust has also entered into three conditional agreements as of February 13, 2018 to sell five properties in Ontario and Quebec for aggregate sale proceeds of \$58.0 million at a weighted average capitalization rate of 6.66%. Should these firm and conditional transactions close by the end of the second quarter in 2018, as currently contemplated, the Trust would have completed the sale of 19 properties for aggregate sale proceeds of \$569.9 million or approximately 28% of our disposition target by sales proceeds, at a weighted average capitalization rate of 6.13%. The aggregate proceeds from the sale of these properties are in line with the Trust's IFRS valuations.

The net proceeds from the dispositions have been, and are expected to be, used to pay down debt, fund unit repurchases through RioCan's Normal Course Issuer Bid (NCIB) program and fund the Trust's development activities. Since the renewal of the NCIB program on October 20, 2017 and as of December 31, 2017, RioCan has purchased and cancelled 3.9 million Trust units at an average purchase price of \$25.30 per unit for a total cost of \$99.6 million.

To maximize the effectiveness of the Trust's NCIB program, the Trust suspended its DRIP program effective November 1, 2017, as announced on October 2, 2017.

Additional Capital Recycling

As part of RioCan's ongoing capital recycling program, RioCan completed additional income producing property dispositions totalling \$149.6 million in 2017, consisting of:

- Sale of its Cambie Street property in Vancouver, British Columbia on June 29, 2017, for a sale price of \$94.2 million at a capitalization rate of 3.29%. There was no debt relating to the disposition.
- Sale of a portfolio of six chartered bank branches located in British Columbia on August 3, 2017, at a sales price of \$30.3 million and a capitalization rate of 3.72%. There was no debt relating to the disposition.
- Sale of a partnership interest for sale proceeds of \$25.1 million in Q1 2017.

Also, RioCan sold a portion of its available-for-sale marketable securities and recognized gains of \$10.5 million in Q4 2017 and \$46.0 million for the year ended December 31, 2017.

Development Progress and Strategic Alliances

RioCan's development program is a significant component of its growth strategy to unlock the intrinsic value of its existing properties through redevelopment and intensification and deliver strong net asset value ("NAV") growth to its unitholders. During 2017, RioCan continued to make significant progress in advancing its development program, notably:

- **Project completions** - completed 0.8 million square feet of projects with \$224.3 million costs transferred to income producing properties. Notably, the Trust substantially completed the Sage Hill development, a 380,000 square foot new format centre located in a growing residential suburb in northwest Calgary. This project is co-owned with KingSett Capital on a 50/50 basis. The 32 acre development site is anchored by Walmart and Calgary's first Loblaws City Market banner, with an excellent mix of strong national (London Drugs, Dollarama, Scotiabank, McDonalds, Royal Bank of Canada) and high quality regional retailers.
- **Zoning approvals and development pipeline** - obtained 4.5 million square feet (at RioCan's interest) of zoning approvals in 2017 including the zoning approvals for The Well in Toronto, Westgate and Elmvale in Ottawa, Millwoods in Edmonton and Southland in Calgary. The Trust continues to identify new intensification opportunities and expand its development pipeline, while maintaining prudent capital management. As of December 31, 2017, the Trust has identified approximately 26.3 million square feet of development pipeline (at RioCan's interests), of which 46.7% is already zoned and another 20.1% with zoning applications submitted.
- **Project and leasing progress** - Several large projects are progressing as planned and are scheduled to be completed by the end of 2018 or early 2019, including but not limited to:
 - Yonge Eglinton Northeast Corner Condominium - the 623 unit fully pre-sold landmark condominium project located at the intersection of the Yonge-Bloor subway and the new Eglinton Crosstown light rail transit line ("Eglinton LRT") in Toronto; 50/50 co-owned by RioCan and Metropia/Bazis;
 - Yonge Eglinton Northeast Corner Residential Rental - a 466 residential rental unit project, including 65 residential rental replacement units and retail and office space with underground access to the Yonge-Bloor subway and the new Eglinton LRT in Toronto; 50/50 co-owned by RioCan and Metropia/Bazis; and
 - King & Portland - a mixed-use project in the trendy Toronto King West neighbourhood. In September 2017, RioCan and its 50% partner Allied Properties Real Estate Investment Trust ("Allied") seized the market trend and changed the originally contemplated residential rental component to condominium units, 100% of which were subsequently sold with profitability well ahead of initial estimate. The project's office component is 100% leased and the retail component is currently 44% leased with the remaining 7,000 square feet expected to be leased upon completion.

The Trust continues to make good progress on other developments such as Sheppard Centre, 491 College Street and Bathurst College Centre, all located in urban Toronto and scheduled for full or phased completion in 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- **New strategic alliances** - Part of the strength in RioCan's development program is its ability to attract well-established partners with proven track records and residential development expertise. During 2017, RioCan entered into strategic alliances with select new partners through the sale of partial interests in several development projects. Such strategic alliances not only reduce the Trust's development risks but also crystallize the value of zoned density and generate NAV growth for unitholders.
 - Gloucester Residential - a new 50/50 joint venture with Killam Apartment Real Estate Investment Trust ("Killam") formed on April 21, 2017 to redevelop an income producing property on the new Confederation LRT Line in Ottawa into a residential community with four residential towers containing up to 840 units (at 100%);
 - Sunnybrook Plaza - a new 50/50 joint venture with Concert Real Estate Corporation ("Concert") formed on June 14, 2017 to redevelop an income producing property located on the new Eglinton LRT route in Toronto into a 16-storey and an 11-storey mixed-use project; and
 - Yorkville - a new partner Capital Developments ("CD") acquired a 25% interest in the project on October 12, 2017, resulting in a 50/25/25 joint venture among RioCan, Metropia and CD. The project is located in the prestigious Toronto Yorkville neighborhood with the potential for approximately half a million square feet of luxury condominiums, retail uses and up to 82 residential rental replacement units. As of February 13, 2018, the partners have completed acquisitions of adjacent properties substantially required for the intensification project. RioCan has agreed to purchase the partners' interest in the retail portion upon project completion at a 6% capitalization rate and has the right of first opportunity to acquire the residential rental replacement units. This will provide further NAV growth to the Trust's unitholders.
 - Brentwood Village - On November 23, 2017, RioCan completed the sale of a 50% interest in a discrete portion of its Brentwood Village property in Calgary, Alberta to Boardwalk Real Estate Investment Trust ("Boardwalk") for total proceeds, including certain cost recoveries, of \$4.8 million (50% interest). The co-owners plan to develop this discrete portion of the property into a mixed-use project with 163 residential rental units plus retail space. RioCan continues to own 100% of the main portion of the property including existing retail and future density.
- **Building on existing strategic alliances** - RioCan continues to build on and re-align our existing strategic alliances with our partners when opportunities arise for similar reasons as noted earlier for new strategic alliances.
 - Yonge Eglinton Northeast Corner - On July 5, 2017, RioCan entered into an agreement with its partner to purchase the remaining 50% interest in the rental residential tower of the landmark, mixed-use, transit oriented project. The purchase price is based on costs plus \$10.0 million upon closing (which is estimated in the first quarter of 2019), subject to final costs amount.

RioCan also has an agreement to acquire the remaining 50% interest in the retail component of the project at a purchase price based on a 7% capitalization rate and the stabilized net operating income upon completion in 2019.

Both deals will provide RioCan further NAV growth potential upon deal closings.
 - The Well - On October 5, 2017, RioCan and its partner Allied acquired Whitecastle New Urban Fund 2's ("WNUF 2") undivided 20% interest in the commercial component of The Well, the large-scale landmark mixed-use development in downtown Toronto. As a result of this transaction, both Allied and RioCan each own an undivided 50% interest in the commercial component of the project.
 - Windfield Townhouse Development - On October 27, 2017, RioCan formed a 50/50 joint venture with Tribute Communities ("Tribute") to develop 551 townhouses in several phases on approximately 31 acres at RioCan's Windfields Farm development property in Oshawa, Ontario. 166 of the 170 units released in phase one and 14 of the 94 units in phase two have been sold.
 - 740 Dupont - On December 15, 2017, RioCan completed the sale of a 50% interest in its 740 Dupont Avenue mixed-use development project in Toronto, Ontario to Woodbourne Canada Partners ("Woodbourne") for total proceeds, including certain cost recoveries, of \$9.4 million (50% interest). The mixed-use project will consist of 210 residential rental units plus retail space. Woodbourne is also the Trust's 50% partner in the Trust's largest 584-unit residential rental development - residential Building 6 at The Well in downtown Toronto.
 - E2 Condos at Yonge & Eglinton - On December 11, 2017, RioCan acquired a 10% interest in E2 Condos, a development adjacent to the Trust's residential rental project at the northeast corner of Yonge and Eglinton. RioCan will invest a total of \$3.0 million and will participate in project profits and earn fees for easement rights. During Q4 2017, RioCan contributed \$1.4 million to the project.

Capital Management and Distribution Increase

During 2017, the Trust continued to exercise sound capital management. As of December 31, 2017, RioCan's debt to total assets remained low at 41.4% on a proportionate share basis. All debt metrics as discussed in the *Debt Metrics* section of this MD&A outperformed the Trust's targets. Notably, the Trust's Debt to Adjusted EBITDA ratio further improved to 7.57x for the year from 8.10x as of December 31, 2016. The Trust has a significant unencumbered asset pool of \$7.7 billion as of December 31, 2017 that generates 56.7% of RioCan's annualized NOI as of December 31, 2017. In addition, RioCan's unencumbered assets to unencumbered debt ratio stood at 226%, well above our 200% target.

During 2017, RioCan continued to expand and access multiple sources of capital at competitive rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debenture

RioCan issued \$300 million of 5.75-year Series Y senior unsecured debentures on January 16, 2017, at a price of \$999.97 per \$1,000 principal amount with an effective yield of 2.831% if held to maturity, and \$300 million of 4-year Series Z senior unsecured debentures on April 10, 2017 at 2.194%. RioCan also redeemed, in full, its \$150 million 3.80% Series P senior unsecured debentures on March 1, 2017 in accordance with its terms.

On January 31, 2018, the Trust issued \$300 million of Series AA senior unsecured debentures, which mature on September 29, 2023 and carry a coupon rate of 3.209%. The interest on these debentures is payable semi-annually commencing September 29, 2018. The debentures were sold at a price of \$999.95 per \$1,000 principal amount with an effective yield of 3.209% if held to maturity. The net proceeds were used to fund development activities, property acquisitions, repayment of certain indebtedness and other general trust purposes. The Series AA debentures can be redeemed in whole or in part at par on or after August 29, 2023 prior to maturity.

Unsecured Credit Facilities

On April 25, 2017, the Trust exercised its option to extend the maturity date on its \$1 billion revolving unsecured operating credit facility to May 31, 2022. All other terms and conditions remained the same.

On October 31, 2017, the Trust entered into a \$200 million non-revolving unsecured credit facility with two financial institutions (consisting of a Schedule I and a Schedule III bank), maturing January 31, 2023 bearing interest at a rate of Bankers' Acceptances plus 110 basis points per annum. In addition, the Trust entered into a \$100 million non-revolving unsecured credit facility on December 27, 2017 with a Schedule I bank, maturing December 27, 2019 bearing interest at a rate of Bankers' Acceptances plus 100 basis points per annum. The second facility provided the Trust with an option to increase the facility by up to \$50 million with the addition of a lender. As of December 31, 2017, the Trust has drawn \$300 million on the two non-revolving unsecured credit facilities. Subsequent to year end, the Trust exercised its option and borrowed an additional \$50 million from a Schedule III bank under the second facility.

The \$300 million in total draws on the non-revolving unsecured credit facilities as of December 31, 2017 were used to pay down the Trust's revolving unsecured operating line of credit and mortgages payable. The agreements governing these non-revolving unsecured credit facilities require the Trust to maintain certain financial covenants similar to those of RioCan's \$1 billion revolving unsecured operating line of credit.

Preferred units

On June 30, 2017, the Trust exercised its option to redeem all 5.98 million outstanding Series C preferred trust units for total redemption proceeds of \$149.5 million.

Distribution Increase

As announced on December 1, 2017, the Trust increased its annual distribution to unitholders by \$0.03 per unit or 2.1% to \$1.44 per unit effective January 1, 2018.

Outlook

Canada's economy demonstrated stronger than anticipated growth in 2017. This growth, together with a positive outlook resulted in the Bank of Canada easing on its accommodative stance and increasing the overnight interest rate by 50 basis points in 2017 to 1.0%. In its January 2018 meeting, the Bank of Canada increased the overnight rate by an additional 25 basis points to 1.25%. It is generally expected that the Bank of Canada will continue with its stance on monetary tightening with further hike(s) to interest rates in 2018, even though there are general economic concerns and uncertainties regarding the potential outcome of the North American Free Trade Agreement (NAFTA) negotiations between Canada, the U.S. and Mexico. We are well-positioned to withstand an increasing interest rate environment through our low leverage and staggered portfolio of debt maturities, with no more than 18% of our overall debt maturing in any one year over the next five years.

Energy prices have largely appeared to have stabilized, however there remains some uncertainty about the strength of the recent recovery. The U.S. economy has also posted positive indicators for economic growth and employment levels have improved. It is generally believed that the U.S. Federal Reserve will gradually raise interest rates over the next twelve to eighteen months if the economy continues to grow.

Overall, our large size and dominant position in Canada's six major markets from which 76.1% of our portfolio rental revenues are derived, leave us well-positioned to withstand the current retail environment. The announced acceleration of our major market strategy, which is further discussed in the *Strategy* section below, will increase our focus in these markets and is expected to further improve the quality, growth profile and resilience of our portfolio in the ever changing retail environment. In addition to the competitive advantage provided by RioCan's significant scale and six major markets presence, our resiliency is aided by the depth of our management team, our well diversified and stable portfolio, the portfolio's value creation potential through its development program, solid tenant base, flexible capital structure (evidenced by our ability to raise debt from a variety of sources and a large pool of unencumbered assets) and conservative borrowing practices.

We expect continued organic growth over the long term including continued development deliveries from our development program. As the properties that were impacted by Target's departure are largely stabilized, we anticipate positive effects to same property net operating income (NOI) in 2018. However, this will be partially offset by increased interest expense as costs that were previously capitalized while such properties were classified as under redevelopment, will be expensed after completion of the redevelopment.

For 2018, we expect to achieve same property NOI growth in the 2.0% to 3.0% target range assuming current market conditions prevail, although quarter to quarter results may vary.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Macro Economic and Market Trends

Canadian dollar

The improvement in the economic environment and potential for further interest rate increases in Canada has resulted in an improvement for the Canadian dollar in 2017 relative to 2016. The Canadian dollar has recently weakened versus the U.S. dollar given the heightened expectation of rising interest rates in the U.S. However, the prolonged weakness in the Canadian dollar, relative to that of the U.S. over the last few years, has negatively impacted retailers that import goods from the U.S. On the other hand, there may be some positive growth in retail sales resulting from fewer Canadians shopping in the U.S. Also, if the Canadian dollar remains relatively attractive, it may attract more tourists and foreign capital to Canada, and more specifically to Canada's major markets where we have a significant presence.

Alberta economy

Low energy prices in 2017 caused a sharp economic contraction in Alberta. Despite Alberta's attempts to diversify into non-energy dependent sectors, the province is dependent on the energy resource sectors. Oil prices have recovered to an extent in recent months and we would anticipate a continued economic improvement in Alberta should oil prices continue to recover. Recent economic forecasts suggest that the economic recovery in Alberta will continue to progress with signs of renewed investment in the province's energy sectors and improving employment results. Furthermore, recent retail sales data as measured on a per capita basis has been solid, and consumer confidence is growing, as the economy in Alberta adjusts to the current environment. Occupancy rates in our Alberta portfolio remain amongst the highest in our portfolio at approximately 98% and valuations for RioCan's high quality, well-located assets in Alberta also remain strong. Notwithstanding, the regional economy is sensitive to energy prices and if weakness returns to oil prices, the headwinds will likely persist with potential to further impact retail and residential markets.

Interest rates

The Bank of Canada increased the overnight interest rate in aggregate by 50 basis points to 1.0% in 2017 and, in their January 2018 meeting, raised the overnight interest rate by another 25 basis points to 1.25%. The Bank of Canada report noted that it expects inflation to remain close to its 2% target for the coming period. It is generally viewed that the Government of Canada bond yield curve has built in one or two more interest rate hikes in 2018.

Despite the recent interest rate hikes and expectations for further modest rate increases, the interest rate environment remains relatively favorable in Canada in comparison to longer term historical levels. We will monitor the economy and real estate markets with a view to ensure that we continue to have adequate access to capital, either by way of debt, strategic asset dispositions or equity to meet our business requirements and to maximize financing opportunities as they become available.

E-commerce

We believe that the depth and breadth of our retail portfolio, especially in Canada's six major markets, makes us well positioned to withstand the effects of e-commerce on the overall retail market.

There is no question that we see evidence today of the disruptive effects of e-commerce on the traditional brick-and-mortar powerhouses, as giants like Walmart begin redirecting significant portions of their capital spending toward on-line sales capabilities. At the same time, urban population growth is generally out-pacing the overall population growth with higher barriers for e-commerce players to establish distribution centres in urban settings for the "last-mile" deliveries. Canada's geographic dispersion remains another challenge for e-commerce as it makes shipping and delivery costs more expensive. As a result, the penetration of e-commerce, while growing, has been more limited in Canada in comparison to that in the U.S. or Europe.

Despite the negative impact of e-commerce on the traditional brick-and-mortar retailers, we believe that shopping centres will always have a place for consumers as they remain the most cost-effective way for a retailer to distribute goods, and the most successful retailers in the future will be the ones that effectively execute a combined on-line and brick-and-mortar strategy. These retailers will employ models that have been adapted to integrate sales in their storefronts as well as catering to on-line sales, commonly referred to as 'omni channeling' to provide today's consumer with the choice of how they want to shop. In the changing face of retail, national tenants are increasingly realizing that they must provide this flexibility to their customers in order to remain relevant.

Grocery stores have historically been more resistant to on-line consumer spending, and in Canada, most on-line grocery orders are filled at the store level rather than through a distribution warehouse. The Amazon acquisition of Whole Foods in August 2017 validates the need for a physical retail presence, particularly in the grocery segment of the retail market. RioCan continues to pro-actively bolster its portfolio through a greater focus on national and grocery anchor tenants and an improved overall shopping experience.

While e-commerce may have an impact on the size, mix and possibly even the location of physical stores, we expect that shopping centres are going to be a very important part of how retailers remain connected to their customers. For example, the two largest demographic groups are the Baby Boomers in their retirement years and the Millennials, each having very different spending habits than previous generations. The spending patterns of these two groups compound the effects of e-commerce by changing the focus of retail to more service-oriented providers, such as food and beverage, entertainment, personal services and fitness - or what we sometimes refer to as 'experiential retail'. We have been evolving our tenant mix to increase our tenants in these sectors which tend to be less impacted by e-commerce. Refer to *Tenant Profile* section of this MD&A for an overview of our tenant mix. Our residential strategy further addresses these trends, in part, as it not only re-purposes the existing retail, but also focuses on the service component on today's changing retail landscape.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canadian retail environment

We expect fundamentals in Canadian retail real estate to remain steady in 2018, particularly necessity-based retail, value retail, and service and experience oriented retail such as restaurants and entertainment. As the retail landscape continues to evolve, innovative responses to reorienting retail spaces in order to create value are evident in today's marketplace. For locations which are centrally located in high demand areas, the integration or change in use can, in fact, maximize the value of the real estate and enhance the productivity of the space. A good example of this is Hudson Bay's announcement in 2017 to re-purpose its excess retail space to office space for lease in certain of its prime locations.

The Target departure, Sears and other announced store closures that have occurred over the past two to three years have contributed to the overall negative market sentiment towards retail real estate and created a more cautious environment for retailers. However, relative to the U.S retail markets, the fundamentally lower retail space per capita in Canada, tighter controlled municipal zoning bylaws, and higher distribution costs in Canada given its geographic diversity, as well as sound retail tenant base with solid financial strength, will benefit the retail real estate market in Canada over the long run as tenants and landlords adapt to the changing retail environment.

The recent store closures by Sears Canada are not expected to have a material impact on RioCan operations, but they are expected to dampen overall market sentiment towards retail real estate and put further pressure on leasing and rent growth in secondary market assets, which further supports the Trust's strategy to accelerate its major markets focus.

In Q4 2017, RioCan and its partner Hudson Bay Company secured a surrender agreement with Sears Canada Inc. for its location at RioCan Oakville Place, in Oakville, Ontario. By terminating the long-term lease with Sears, the co-owners gained the ability to re-tenant the premises with dynamic retailers at current market rents. The lease surrender agreement also removes development restrictions held by Sears which will allow the co-owners to pursue potential intensification at the site given its close proximity to the Queen Elizabeth Highway and a Go Transit Station. In addition, at Garden City Shopping Centre in Winnipeg, Manitoba, RioCan and its partner (Bayfield Realty Advisors) acquired the freehold interest in the Sears location. The acquisition of the Sears premises provides the co-owners the opportunity to replace the defunct anchor with dynamic retailers that will enhance the performance of the recently renovated Centre, and unlocks existing density on the site that will permit further commercial development.

Strategy

Acceleration of Canadian major markets focus

On October 2, 2017, RioCan announced its plan to accelerate its portfolio focus in Canada's six major markets through the sale of approximately 100 of its properties located primarily in secondary markets across Canada over the next two to three years. On completion, RioCan expects to generate in excess of 90% of its annualized rental revenue from Canada's six major markets (currently 76.1%). This strategy will further enhance the quality, growth profile and resilience of the Trust's portfolio of retail focused, increasingly mixed-use properties located in prime, high density, transit oriented areas where Canadians want to shop, live and work.

With the recent announcement, our Canadian growth strategy has evolved to now entail the following:

- The sale of over \$2.0 billion of income properties primarily located in Canada's secondary markets, including certain non-core assets in major markets, representing approximately 100 of RioCan's properties to be sold in phases over the next two to three years. The sales are expected to generate total net proceeds of approximately \$1.5 billion;
- Repurchase and cancellation of the Trust's units through the Trust's Normal Course Issuer Bid (NCIB) program while maintaining its strong credit fundamentals. It is estimated that approximately half of the net proceeds from the sales of properties will be used for its NCIB program;
- Suspension of its Distribution Reinvestment Plan (DRIP) effective November 1, 2017, in order to maximize the effectiveness of the NCIB;
- Continued investment of approximately \$300 million to \$400 million per year into RioCan's robust development program, which is focused exclusively in Canada's six major markets and focused on commercial and mixed-use projects, including a residential intensification program that includes purpose-built, transit-oriented projects seeking to capitalize on our development capabilities and unlock the intrinsic values of our existing properties that are located in high growth and high population hubs of Canadian major markets;
- Achievement of strong organic growth by leveraging our existing strengths, such as our strong relationships with high quality tenants and partners, our economies of scale, diversity and experience; and
- Financial strength through prudent capital management ensuring continued access to cost effective and diversified capital in support of our investment and development strategies, such as our \$1 billion revolving unsecured operating line of credit.

RioCan intends to complete the aforementioned sales in a targeted and phased approach over the next two to three years, which will help mitigate the risks associated with the sale of a portfolio of this size. Given the preliminary nature of these planned dispositions and the flexibility that the Trust intends to maintain over the disposition process, there can be no assurance regarding the timing or expected proceeds of the planned asset sales.

In the four months since the October 2017 announcement, RioCan has successfully completed or entered into firm agreements to sell approximately \$511.9 million of properties in secondary markets representing approximately 25% of the announced disposition target. In addition, the Trust has entered into three conditional agreements as of February 13, 2018 to sell five properties in Ontario and Quebec for total sale proceeds of \$58.0 million. The expected \$569.9 million aggregate proceeds from

MANAGEMENT'S DISCUSSION AND ANALYSIS

the sale of these assets are in line with the Trust's IFRS valuations. Refer to *Business Overview* section of this MD&A for details on the closed, firm or conditional transactions.

RioCan has also since purchased and cancelled 3.9 million units at an average purchase price of \$25.30 per unit at a total cost of \$99.6 million.

Mixed-Use Residential Development and NAV Growth

Over the past 24 years, we have accumulated a robust portfolio of income producing properties with significant redevelopment potential that are strategically situated on or near existing or government approved transit lines. We are focused on optimizing the value of our existing properties through our development program, diversifying our portfolio into residential real estate, and advancing our development pipeline to deliver FFO and NAV growth to our unitholders and value to our tenants and meet the evolving needs of the communities we serve.

RioCan is committed to ensuring that individual properties in our portfolio are utilized to their highest and best use over the long term. While there are numerous ways to utilize the existing properties beyond their current use of conventional retail centres, RioCan has focused on mixed-use projects containing predominantly multi-residential (both rentals and condominiums), retail and, to a lesser extent, office rental buildings.

In addition to opportunities being identified within the existing portfolio, certain properties owned as part of our real estate joint venture with HBC have the strong potential for intensification as urban mixed-use properties.

The Trust will continue to pursue a disciplined approach to our development program with a focus on major urban markets. The markets of Toronto, Calgary, and Ottawa are the principal focus of the Trust's development program. We will continue to use a staggered approach in our development program to avoid unnecessary concentration of development projects in a single period of time. This will allow us to balance our development risk exposure and effectively manage our capital and personnel resources.

Furthermore, RioCan will continue to build our team to carry forward the residential development initiative as it evolves, drawing from its existing areas of expertise. The current team is comprised of existing RioCan executives as well as third-party consultants. As the initiative continues to grow, additional resources may be added to the platform to facilitate such growth, including bringing either new or existing partners that have residential development and management expertise on a property-by-property basis.

Acquisitions

There is greater competition for acquisitions of income producing properties because of a significant number of well-capitalized high net worth investors and institutions seeking quality investments, especially due to the current low interest rate environment in Canada. Given the competitive nature of the acquisition market and limited supply of acquisitions that meet RioCan's criteria in selected markets, it is not currently expected that acquisitions of income producing properties will be a significant growth driver in the near term. On occasion, management may be approached by a partner interested in disposing of its interest in a co-owned property. Our ability to acquire our co-owners' interests in property where we already have an efficient management structure in place represents a competitive advantage because we can acquire managing interests in highly desirable assets that are unavailable on the open market. Consistent with our income producing property acquisition strategy noted above, we will continue to maintain a disciplined approach in evaluating these acquisition opportunities to ensure that they meet our investment criteria.

In addition, the Trust will evaluate and seize opportunities to acquire selective sites suitable for development, such as our recent acquisitions of properties in the prestigious Yorkville neighbourhood of Toronto to potentially develop into 0.5 million square feet of luxury condominiums, retail uses and 71 residential rental replacement units. Such acquisitions for development purpose will be very selective and will have to meet our investment criteria and fit into our overall development program.

Capital Management

RioCan is committed to prudent management of its balance sheet. Management believes that the quality of RioCan's assets and strong balance sheet are attractive to both lenders and equity investors, and should enable RioCan to continue to access multiple sources of capital at competitive rates.

To support growth, RioCan employs a three-fold capital strategy: to provide the capital necessary to fund growth; to maintain sufficient flexibility to access capital in many forms, both public and private; and to manage the overall financial structure in a fashion that preserves investment grade credit ratings. RioCan strives for an optimal financial structure to drive appropriate risk-adjusted total returns. The principal objectives of the capital strategy are to:

- optimize the risk-adjusted cost of capital through an appropriate mix of debt and equity;
- raise debt from a variety of sources and maintain a well-staggered maturity schedule and a large pool of unencumbered assets;
- maintain and expand as necessary significant committed undrawn loan facilities to support current and future business requirements;
- actively manage financial risks, including interest rate, foreign exchange, liquidity and counterparty risks; and
- selectively sell assets as part of actively managing the portfolio and to increase the portfolio weighting to the six urban markets in Canada as a means to strategically recycle capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sustainability

Embedding Sustainability

Sustainability is another key component of RioCan's strategy. The Trust's objective for sustainability is to be among the leaders in embedding sustainability practices in its business model. To the Trust, embedding sustainability means that it enhances its business model and management approaches and incorporates sustainability in developments, operations, investment activities and corporate functions.

RioCan's platform for sustainability focuses on three areas. To achieve the sustainability vision, RioCan has centered on people, community and environmental leadership. 2017 was the Trust's first year of implementing its sustainability policy and it has made significant progress on its sustainability plan, achieving its milestones. Key accomplishments this year include:

- Formalization of a sustainability policy;
 - Participation in the Global Real Estate Sustainability Benchmark ("GRESB") Survey for the first time;
 - Inclusion of a new performance indicator for Management within our performance evaluation and goals. The specific indicator is to improve year over year sustainability performance of our portfolio;
 - Implementation of sustainability guidelines for development projects and existing properties;
 - Collection of employee feedback on sustainability drivers via an engagement survey;
 - Establishment of a baseline for sustainability: energy intensity, water intensity and Greenhouse Gas ("GHG") emissions. RioCan's GHG emissions and energy consumptions both decreased from 2015 to 2016 ⁽ⁱ⁾;
 - Establishment of sustainability standards in our development projects; the Trust is planning for Toronto Green Standard (TGS) Tier II for its The Well and Sunnybrook Plaza projects and is pursuing LEED Gold & TGS Tier II for its Yonge Sheppard Centre project.
 - Teaming with Enwave Energy Corporation ("Enwave") and our partner Allied to extend Enwave's existing deep lake water cooling and hot water distribution networks by building a new energy storage facility housed at The Well in downtown Toronto. The thermal energy storage facility will store 12 million-litres of temperature-controlled water fed by Enwave's existing deep lake water cooling system and a newly developed hot water loop. It will provide the first low-carbon, resilient cooling and heating option for energy within the property and to the surrounding communities; and
 - Incorporation of a geothermal energy system for heating and cooling at Gloucester Residential development in Ottawa with Killam, which is under construction and estimated to be completed in 2019.
- (i) Energy consumption data was compiled using the recoverable utility account invoices. GHG emissions were calculated based on the direct energy (e.g., natural gas) and indirect energy (e.g., electricity) consumed at RioCan properties. Properties where RioCan owned less than a 25% share were not included in calculating the energy consumption and GHG emissions.

RioCan's sustainability focus in 2018 will be sustainability performance measurement and further engaging the various stakeholder groups such as employees, tenants, partners, investors and communities. As an owner, operator and developer of a large real estate portfolio, RioCan has the responsibility to consider the sustainability impacts of our activities and find opportunities to improve.

Sustainability Governance

RioCan's Sustainability Steering Committee is comprised of cross functional executive and leadership team members that oversee the sustainability strategy implementation and drive performance improvements. Steering Committee members sponsor and provide guidance on sustainability initiatives within the organization and enable performance measurement. In addition, RioCan has a dedicated environmental and sustainability team to manage day-to-day sustainability strategy implementation.

For RioCan's sustainability policy and additional information about its sustainability strategy and plan, visit RioCan's web site under *Social Responsibility*.

PRESENTATION OF FINANCIAL INFORMATION AND NON-GAAP MEASURES

Presentation of Financial Information

Unless otherwise specified herein, financial results, including related historical comparatives, contained in this MD&A are based on RioCan's 2017 Annual Consolidated Financial Statements. In connection with the sale of our U.S. assets in 2016, the net income associated with our former U.S. geographic segment is presented as a single line in the consolidated statements of income as discontinued operations.

Non-GAAP Measures

In addition to reported IFRS measures, industry practice is to evaluate real estate entities giving consideration, in part, to certain non-IFRS performance measures described below, such as funds from operations, net operating income and same property net operating income growth. Management believes that these measures are helpful to investors because they are widely recognized measures of a REIT's performance and provide a relevant basis for comparison among real estate entities. In addition to the IFRS results, we also use these measures internally to measure the operating performance of our investment property portfolio. These measures are not in accordance with IFRS generally accepted accounting principles (GAAP) and have no standardized definition prescribed by IFRS and, as such, our computation of these non-GAAP performance measures might

MANAGEMENT'S DISCUSSION AND ANALYSIS

not be comparable to similar measures reported by other issuers. Non-GAAP measures should not be considered as alternatives to net income or comparable metrics determined in accordance with IFRS as indicators of RioCan's performance, liquidity, cash flows and profitability. We supplement our IFRS measures with these non-GAAP measures to aid in assessing our core performance and we report these additional measures so that investors may do the same. Management believes that the supplementary non-GAAP measures described below provide readers with a more comprehensive understanding of management's perspective on its operating performance.

The Real Property Association of Canada (REALpac) issued a whitepaper in February 2017 prescribing revised definitions for certain non-GAAP financial measures of cash flow and operating performance commonly used by the Canadian real estate industry. RioCan has reviewed these guidelines and has adopted certain measures, where appropriate, commencing with our first quarter 2017 reporting. Further details are included below under the headings *Funds From Operations (FFO)* and *Adjusted Cash Flow From Operations (ACFO)*.

The following discussion describes the non-GAAP measures RioCan management currently uses in evaluating its operating results. For greater clarity, each measure defined below includes the results from both continuing and discontinued operations on a combined basis.

Funds From Operations (FFO)

FFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a whitepaper describing the intended use of FFO last revised in April 2014 and restated in February 2017. It is RioCan's view that IFRS net income does not necessarily provide a complete measure of RioCan's recurring operating performance. This is primarily because IFRS net income includes items such as fair value changes of investment property that are subject to market conditions and capitalization rate fluctuations and gains and losses on the disposal of investment properties, including associated transaction costs and taxes, which are not representative of a company's recurring operating performance. For these reasons, RioCan has adopted REALpac's definition of FFO, which was created by the real estate industry as a supplemental measure of recurring operating performance.

FFO is computed as IFRS consolidated net income attributable to RioCan unitholders adjusted for items such as, but not limited to, unrealized changes in the fair value of investment properties and transaction gains and losses on the acquisition or disposal of investment properties (including related transactions costs and income taxes) calculated on a basis consistent with IFRS.

FFO should not be construed as an alternative to net income or cash flows provided by or used in operating activities determined in accordance with IFRS. RioCan's method of calculating FFO is in accordance with REALpac's recommendations, but may differ from other issuers' methods and, accordingly, may not be comparable to FFO reported by other issuers. A reconciliation of FFO to IFRS net income can be found under *Results of Operations* section in this MD&A.

RioCan regards FFO as a key measure of operating performance and as a key measure for determining the level of employee incentive based compensation. RioCan also uses FFO in assessing its distribution paying capacity.

Effective January 1, 2017, we are no longer reporting Operating Funds From Operations (OFFO) as discussed in our 2016 Annual Report.

As noted in the *Future Changes in Accounting Policies* section of this MD&A, the Trust intends to adopt the new standard IFRS 9 - Financial Instruments ("IFRS 9") on the required effective date of January 1, 2018. One impact of adopting this new standard is that the unrealized gains or losses on available-for-sale marketable securities will be included in IFRS net income, whereas they are recorded in other comprehensive income in 2017 and prior years consolidated financial statements. Based on FFO definition currently set forth by REALpac, which was revised in April 2014 and restated in February 2017 before the effective date of this new accounting standard, the unrealized gains or losses on available-for-sale marketable securities would be included in FFO, as a result of adopting IFRS 9. However, the Trust believes that including such unrealized gains or losses on available-for-sale marketable securities in FFO does not represent the recurring operating performance of the Trust. As a result, effective January 1, 2018 when the Trust adopts the IFRS 9, RioCan's method of calculating FFO starting in 2018 will be in compliance with REALpac's definition of FFO except that RioCan will exclude these unrealized gains or losses on available-for-sale marketable securities in its calculation of FFO. For further clarity, RioCan will continue to include realized gains or losses on available-for-sale marketable securities in its calculation of FFO as it has been based on the REALpac's definition of FFO.

Adjusted Cash Flows From Operations (ACFO)

In February 2017, REALpac issued a whitepaper, introducing a new non-GAAP measure called Adjusted Cash Flow from Operations (ACFO), which is intended as a measure for sustainable economic cash flow available for distributions. RioCan has reviewed the whitepaper guideline and adopted ACFO as a supplementary non-GAAP measure of sustainable cash flow and has no longer reported the previously reported adjusted funds from operations (AFFO), effective January 1, 2017. ACFO is used by management as an input, together with FFO, in assessing RioCan's distribution payout ratios.

ACFO is computed as cash provided by (used in) operating activities per the IFRS consolidated statement of cash flows plus, but not limited to, the following adjustments:

- includes adjustments for certain working capital items that are not considered indicative of sustainable economic cash flow available for distribution. Examples include, but are not limited to, working capital changes relating to the following: residential inventory and developments, prepaid realty taxes and insurance, interest payable and receivable, sales and other indirect taxes payable to or receivable from applicable governments, income taxes payable and receivable and transaction cost accruals relating to acquisitions and dispositions;
- includes cash distributions from equity accounted for investments;
- adds back transaction-related income statement expenses associated with dispositions and acquisitions;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- includes realized gains or losses on available-for-sale marketable securities;
- adds back taxes relating to non-operating activities, such as taxes relating to sale of our U.S. portfolio in 2016;
- deducts normalized capital expenditures, which include both third-party leasing commissions and capital spending related to maintaining the physical condition and the existing earnings capacity of the Trust's income property portfolio (see below for a further description of normalized capital expenditures); and
- adds back internal leasing costs relating to development projects.

The REALpac ACFO definition effectively includes working capital fluctuations relating to recurring operating activities in ACFO, such as working capital changes relating to trade accounts receivable and trade accounts payable and accrued liabilities. This, in management's view, introduces greater fluctuations in quarterly and twelve-month trailing ACFO. As a result, RioCan uses ACFO, together with FFO, in assessing its distribution payout ratios.

ACFO should not be construed as an alternative to cash flows provided by or used in operating activities determined in accordance with IFRS. RioCan's method of calculating ACFO is in accordance with REALpac's recommendations, but may differ from other issuers' methods and, accordingly, may not be comparable to ACFO reported by other issuers. A reconciliation of ACFO to IFRS cash flow from operating activities is found under the Results of Operations section in this MD&A.

The adoption of the IFRS 9 effective January 1, 2018, is not expected to have an impact on ACFO with respect to unrealized gains and losses on available-for-sale marketable securities. As a result, The Trust's calculation of ACFO will continue to be in accordance with REALpac's ACFO recommendations after the adoption of IFRS 9 effective January 1, 2018.

RioCan does not report on the new earnings metric, adjusted funds from operations (New AFFO), as introduced by REALpac in February 2017. RioCan management does not use the New AFFO as a measure of its recurring operating performance and believes that the disclosures in the subsections "FFO", "ACFO" and "Net Operating Income (NOI)" included in the Results of Operations section in this MD&A provide sufficient information for readers to compute the New AFFO. Management has, therefore, opted not to report the New AFFO in order to reduce the number of non-GAAP measures reported in our MD&A.

Normalized capital expenditures

Normalized capital expenditures are an estimate made by management of the amount of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. Management considers a number of items in estimating normalized capital expenditures relative to the growth in the age and size of the Trust's property portfolio. Such factors include, but are not limited to, review and analysis of seven to ten years of historical capital spending, comparison of each quarter's annualized actual spending activity to the annual budgeted capital expenditures as approved by our Board of Trustees at the beginning of each year and management's expectations and/or plans for the properties.

RioCan does not obtain support from independent sources for its normalized capital expenditures but relies on internal diligence and expertise in arriving at this management estimate. RioCan's long tenured management team has extensive experience in commercial real estate and in-depth knowledge of the property portfolio. As a result, RioCan believes that management is best suited to make the assessment of normalized capital expenditures without independent third party sources.

Since actual capital expenditures can vary widely from quarter to quarter depending on a number of factors, management believes that normalized capital expenditures are a more relevant input than actual capital expenditures in assessing a REIT's distribution payout ratio and for determining an appropriate level of sustainable distributions over the long run. The number of factors affecting the quarterly variations in actual capital expenditures include, but are not limited to, lease expiry profile, tenant vacancies, age and location of the properties, general economic and market conditions, which impact the level of tenant bankruptcies and acquisitions and dispositions.

As part of formulating its estimate of normalized capital expenditures, the Trust reviews its actual capital spending levels based on property performance and type of spend (e.g. HVAC, elevator, roof, parking lot, electrical, etc.) to determine the amount of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. This review is done with representation and input from RioCan's cross-functional teams. Short-term fluctuations in actual capital expenditures are analyzed to remove any expenditures that are determined to not represent the level of ongoing maintenance capital investment. For example, during periods of adverse market conditions where RioCan experiences a period of higher tenant turnover, short-term spikes in leasing, re-tenanting costs and landlord work would not necessarily result in a material increase to the level of ongoing capital investment over the life cycle of a property, and accordingly, are removed from the actual costs for the purpose of determining normalized capital expenditures. Property capital expenditures that are generally expected to add to the overall earnings capacity of the property are considered revenue enhancing capital expenditures by management and are also excluded in determining the normalized capital expenditures.

In determining the Trust's 2017 normalized capital expenditures, the Trust used the above process and analyzed its historical seven to ten year actual maintenance capital expenditures for its Canadian income-producing properties. It determined the ten-year and seven-year average maintenance capital expenditures per square foot (PSF) were \$1.16 PSF and \$1.22 PSF, respectively. The analysis excluded revenue enhancing capital expenditures for reasons noted above. After giving consideration to a number of factors impacting these historical data points as discussed earlier in this section of the MD&A, management estimated \$1.22 PSF as more representative of normalized maintenance capital expenditures on a going-forward basis which was within the historical seven to ten year average range. This rate was applied to the estimated 2017 Canadian income-producing NLA of 43.2 million square feet, resulting in the \$52.5 million normalized capital expenditure estimate for 2017.

For the year ended December 31, 2017, the Trust's maintenance capital expenditures amounted to \$51.0 million, \$1.5 million lower than the \$52.5 million normalized capital expenditure estimate for the year. IFRS capital expenditures are further discussed and analyzed under the section *Capital Expenditures on Income Properties* in this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Given the Trust's announcement on October 2, 2017 to sell over \$2.0 billion of income properties over the next two to three years with its acceleration of its major markets focus strategy, normalized capital expenditures are expected to decrease over the next two to three years as the Trust sells most of its secondary market properties. The Trust's remaining properties located in Canada's six major markets tend to have higher tenant retention and lower average age, resulting in lower average maintenance capital expenditures on per square foot basis relative to the Trust's secondary markets properties. The Trust's income producing NLA is also expected to decrease as it sells secondary markets properties, as evidenced by the approximately 1.1 million square feet decrease in income producing NLA from September 30, 2017 to December 31, 2017 primarily as a result of sales of six secondary markets properties subsequent to the October 2017 announcement. As a result, the Trust determines that it is no longer reasonable to use its historical average approach in estimating its 2018 normalized capital expenditures. Instead, it uses its 2018 maintenance capital expenditure budget as its normalized capital expenditures for 2018, which amounts to \$45.0 million, representing an average of \$1.16 per square foot on a projected average income-producing NLA of 38.8 million square feet for the year.

FFO and ACFO Payout Ratios

FFO and ACFO payout ratios are supplementary non-GAAP measures of a REIT's distribution paying capacity. FFO and ACFO payout ratios are computed on a rolling twelve month basis by dividing total common unitholder distributions paid (including distributions paid under RioCan's distribution reinvestment program) by FFO and ACFO, respectively, over the same period. RioCan's method of calculating FFO and ACFO payout ratios may differ from other issuers' methods and, accordingly, may not be comparable to payout ratios reported by other issuers.

As previously discussed, the REALpac ACFO definition includes net working capital increases and decreases relating to operating activities, which tend to fluctuate period over period in the normal course of business. In management's view, this tends to introduce greater fluctuations in three and twelve-month trailing ACFO calculations. As a result, RioCan management uses the FFO payout ratio in addition to the ACFO payout ratio in assessing its distribution paying capacity, as FFO is not subject to such working capital fluctuations.

Net Operating Income (NOI)

NOI is a non-GAAP measure and is defined by RioCan as rental revenue from income properties less property operating costs adjusted to normalize the impact of the application of the requirements of International Financial Reporting Interpretation Committee Issue 21, Levies (IFRIC 21) by matching the pro-rata expense over the period of property ownership with the actual timing of tenant cost recoveries. The provisions of IFRIC 21 mainly relate to the timing of the liability recognition of certain U.S. property taxes. IFRIC 21 is, therefore, no longer applicable since the sale of our U.S. property portfolio in May 2016.

For the calculation of NOI, rental revenue includes all amounts earned from tenants related to lease agreements, including property tax and operating cost recoveries, to the extent recoverable under tenant leases. Amounts payable by tenants to terminate their lease prior to the contractual expiry date (lease cancellation fees) are included in rental revenue for the calculation of NOI. The amount of property taxes and operating costs that can be recovered from tenants is impacted by property vacancy and fixed cost recovery tenancies.

Management believes that NOI is a meaningful supplementary measure of operating performance of the Trust's income producing properties in addition to the most comparable IFRS measure, which we believe is operating income. The IFRS measure of operating income also includes residential inventory gains and losses as well as property and asset management fees earned from co-owners. While management considers its residential inventory and portfolio management activities part of its business operations, and thus operating income, such revenues are not part of how we evaluate the operating performance of our income producing properties. As such, we report NOI as a useful supplementary non-GAAP measure to report the operating performance of our income producing properties.

NOI is an important measure of the income generated from the income producing properties and is used by the Trust in evaluating the performance of the portfolio, as well as a key input in determining the value of the income producing portfolio. RioCan's method of calculating NOI may differ from other issuers' methods and, accordingly, may not be comparable to NOI reported by other issuers.

Same Property NOI

Same property NOI is a non-GAAP financial measure used by RioCan to assess the period over period performance of those properties owned and operated by RioCan in both periods. In calculating same property NOI growth, NOI for the period is adjusted to remove the impact of lease cancellation fees and straight-line rent revenue in order to highlight the 'cash impact' of contractual rent increases embedded in the underlying lease agreements. Same property performance is a meaningful measure of operating performance because it allows management to assess rent growth and leasing activity of its portfolio on a same property basis and the impact of capital investments.

RioCan uses same property NOI growth as its primary measure of portfolio performance and we are no longer reporting same store NOI growth, effective January 1, 2017. Refer to our 2016 MD&A for further additional details.

Enterprise Value

Enterprise value is a non-GAAP measure calculated at the reporting period date as the sum of RioCan's total debt measured on a proportionate basis, common unit market capitalization and preferred unit market capitalization. This non-GAAP measure is used by RioCan management and the industry as a measure of total value of the REIT based on the market price of debt and equity instead of IFRS GAAP total assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RioCan's Proportionate Share

Debt metrics, such as those described below, are shown on both an IFRS and a RioCan proportionate basis (as defined below). Unless otherwise indicated, comparative financial information has been updated to reflect the current year's presentation.

All references to "RioCan's proportionate share" refer to a non-GAAP financial measure representing RioCan's proportionate interest in the financial position and results of operations of its entire portfolio, taking into account the difference in accounting for joint ventures using proportionate consolidation versus equity accounting. Management considers certain results presented on a proportionate basis to be a meaningful measure because it is consistent with how RioCan and its partners manage the net assets and assess operating performance of each of its co-owned properties. The Trust currently accounts for its investments in joint ventures and associates using the equity method of accounting.

The remaining definitions outlined below pertain to measures and/or inputs to our financial leverage, coverage ratios and other key metrics that we use to manage capital and to assess our liquidity, borrowing capacity and cost of capital. All of these measures include the results of both continuing and discontinued operations. In our opinion, the following ratios calculated on the basis of the combined continuing and discontinued operations provide a more meaningful measure of financial performance with respect to the periods reported.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

Adjusted EBITDA is a non-GAAP measure that is used by management as an input in several of our debt metrics, providing information with respect to certain financial ratios that we use in measuring our debt profile and assessing our ability to satisfy obligations, including servicing our debt. Adjusted EBITDA is used as an alternative to IFRS net income because it excludes major non-cash items (including, but not limited to, depreciation and amortization expense, unit-based compensation costs, fair value gains and losses on investment properties, and unrealized gains or losses on available-for-sale marketable securities upon adoption of IFRS 9 effective January 1, 2018), interest costs, current and deferred tax expenses (recoveries), transaction gains and losses on the disposition of investment properties and equity accounted investments, transaction costs and other items that management considers either non-operating in nature or related to the capital cost of our investment properties. For greater clarity, realized gains and losses on the disposition of available-for-sale marketable securities have been and will continue to be included in Adjusted EBITDA for purposes of management assessing the Trust's ongoing ability to satisfy its obligations and service its debt after the adoption of IFRS 9 effective January 1, 2018.

A reconciliation of Adjusted EBITDA to IFRS net income and the debt metrics that utilize Adjusted EBITDA are presented under *Capital Resources and Liquidity - Debt Metrics* section of this MD&A.

Debt to Adjusted EBITDA

Debt to adjusted EBITDA is a non-GAAP measure of our financial leverage calculated on a trailing twelve month basis and is defined as our quarterly average total debt (net of cash and cash equivalents) divided by Adjusted EBITDA. Debt to Adjusted EBITDA is calculated and presented in the *Debt Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

Debt Service Coverage

Debt service coverage is a non-GAAP measure calculated on a trailing twelve month basis and is defined as Adjusted EBITDA divided by the sum of total interest costs (including interest that has been capitalized) and scheduled mortgage principal amortization. It measures our ability to meet our debt service obligations on a trailing twelve month basis. Debt service coverage is calculated and presented in the *Debt Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

Interest Coverage

Interest coverage is a non-GAAP measure calculated on a trailing twelve month basis and is defined as Adjusted EBITDA divided by total interest costs (including interest that has been capitalized). It measures our ability to meet our interest cost obligations on a trailing twelve month basis. Interest coverage is calculated and presented in the *Debt Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

Fixed Charge Coverage

Fixed charge coverage is a non-GAAP measure calculated on a trailing twelve month basis and is defined as Adjusted EBITDA divided by total interest costs (including interest that has been capitalized) and distributions declared and/or paid to common and preferred unitholders. It measures our ability to meet our interest and unitholder distribution obligations on a trailing twelve month basis. Fixed charge coverage is calculated and presented in the *Debt Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

Percentage of NOI generated from unencumbered assets

Percentage of NOI generated from unencumbered assets is a non-GAAP measure defined as the annualized in-place NOI from unencumbered assets as of the end of a reporting period divided by total annualized NOI as of the end of the same reporting period. Unencumbered assets are investment properties that have not been pledged as security for debt.

Unencumbered assets to unsecured debt

The unencumbered asset to unsecured indebtedness ratio is a non-GAAP measure calculated as the carrying value of all investment properties that have not been pledged as security for debt divided by total unsecured indebtedness.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Selected Annual Information

<i>(thousands of dollars, except where otherwise noted)</i>	2017	2016	2015
Revenue	1,155,219	1,133,332	1,087,736
Net income from continuing operations	708,265	683,151	417,566
Net income	715,286	830,838	142,437
FFO (i)	584,597	547,879	622,364
ACFO (i)	588,462	484,185	603,209
Weighted average common units outstanding – diluted (in thousands)	326,929	325,665	319,983

Per unit basis (diluted)

Net income from continuing operations	\$ 2.16	\$ 2.06	\$ 1.26
Net income	\$ 2.18	\$ 2.51	\$ 0.40
FFO (i)	\$ 1.79	\$ 1.68	\$ 1.94
Common unitholder distributions	\$ 1.41	\$ 1.41	\$ 1.41

Key Ratios

Same property NOI growth (decline) % (i)	2.1%	0.5%	(1.8)%
Payout ratios for the twelve months ended December 31:			
FFO (i) (iv)	78.8%	83.6%	72.7%
ACFO (i) (iv)	78.3%	94.6%	75.0%

As at	December 31, 2017	December 31, 2016	December 31, 2015
Total assets	14,376,578	14,173,760	15,996,491
Total debt (ii)	5,931,965	5,653,592	7,413,370
Debt to total assets (i) (iii)	41.0%	39.7%	46.1%
Debt to total assets (RioCan's proportionate share) (i) (iii)	41.4%	40.0%	46.3%
Interest coverage (RioCan's proportionate share) (i) (v)	3.84	3.36	3.07
Debt to adjusted EBITDA (RioCan's proportionate share) (i) (v)	7.57	8.10	8.34
Weighted average contractual interest rate	3.37%	3.54%	3.65%
Unencumbered assets to unsecured debt (i)	226%	240%	166%
% NOI generated from unencumbered assets (i)	56.7%	49.5%	25.1%

- (i) Represents a non-GAAP measure. RioCan's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of RioCan's non-GAAP measures, refer to the section *Presentation of Financial Information and Non-GAAP Measures* section in this MD&A.
- (ii) Total debt is defined as the sum of mortgages payable, lines of credit and other bank loans, mortgages on properties held for sale and debentures payable.
- (iii) Debt to total assets is a non-GAAP measure and is calculated as total debt less cash and cash equivalents, divided by total assets, excluding cash and cash equivalents.
- (iv) Calculated on a trailing twelve month basis. For further discussion of the Trust's FFO and ACFO payout ratios, refer to the sections *FFO and ACFO* in this MD&A.
- (v) Calculated on a trailing twelve month basis. Refer to the *Debt Metrics* section of this MD&A for further details.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2017 Financial Highlights

Due to the sale of our U.S. property portfolio in the second quarter of 2016, our results are presented on both a continuing and discontinued operations basis below.

Net income attributable to unitholders

(thousands of dollars, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net income (loss) attributable to unitholders:				
Continuing operations	\$ 209,735	\$ 178,472	\$ 708,265	\$ 683,060
Discontinued operations	(62)	(14,013)	7,021	147,687
Net income attributable to unitholders	\$ 209,673	\$ 164,459	\$ 715,286	\$ 830,747
Net income (loss) per unit attributable to unitholders (basic):				
Continuing operations	\$ 0.64	\$ 0.54	\$ 2.16	\$ 2.06
Discontinued operations	—	(0.04)	0.02	0.45
Net income per unit attributable to unitholders (basic)	\$ 0.64	\$ 0.50	\$ 2.18	\$ 2.51
Net income (loss) per unit attributable to unitholders (diluted):				
Continuing operations	\$ 0.64	\$ 0.54	\$ 2.16	\$ 2.06
Discontinued operations	—	(0.04)	0.02	0.45
Net income per unit attributable to unitholders (diluted)	\$ 0.64	\$ 0.50	\$ 2.18	\$ 2.51

Continuing Operations

2017

Net income from continuing operations attributable to unitholders for the year ended December 31, 2017 is \$708.3 million compared to \$683.1 million during the same period in 2016, representing an increase of \$25.2 million. Excluding \$45.9 million lower fair value gains over the comparable period, net income from continuing operations attributable to unitholders for the year ended December 31, 2017 is \$571.3 million compared to \$500.2 million in 2016, representing an increase of \$71.2 million or 14.2%.

The increase of \$71.2 million is largely the net effect of the following:

- \$36.4 million of income primarily due to property acquisitions (net of dispositions), strong same property performance, completed developments, and higher lease cancellation fees;
- \$31.9 million increase in gains related to the sale of available-for-sale marketable securities;
- \$8.1 million in interest savings due mainly to lower average debt balances outstanding as a result of debt repayments using proceeds from the sale of the U.S. portfolio in 2016, and the refinancing of debt at lower interest rates;
- \$5.7 million in higher income from our equity accounted investments; partly offset by
- \$6.1 million in lower transaction gains due to a higher gain on the sale of an investment property during the third quarter of 2016; and
- \$4.6 million less dividend income from available-for-sale marketable securities due to such sales since Q3 2016.

For a discussion of fair value adjustments during the year ended December 31, 2017, refer to the *Other income* section of this MD&A.

Q4 2017

Net income from continuing operations attributable to unitholders for the three months ended December 31, 2017 is \$209.7 million compared to \$178.5 million during the same period in 2016, representing an increase of \$31.3 million. Excluding \$26.6 million higher fair value gains over the comparable period, net income from continuing operations attributable to unitholders for the fourth quarter of 2017 is \$138.7 million compared to \$134.1 million in 2016, representing an increase of \$4.6 million or 3.4%.

The increase of \$4.6 million is largely the net effect of the following:

- \$5.0 million of income primarily due to strong same property performance;
- \$6.8 million increase in gains related to the sale of available-for-sale marketable securities; and
- \$1.1 million in interest savings due to the same reasons as noted above for annual interest savings; partially offset by
- \$4.1 million in higher general and administrative expenses primarily due to accelerated depreciation of certain management information systems;
- \$2.6 million higher other costs as a result of a one-time fair market value adjustment to a loan receivable;
- \$1.5 million less dividend income from available-for-sale marketable securities due to such sales since Q3 2016; and
- \$0.7 million in lower income from equity accounted investments.

For a discussion of fair value adjustments during the quarter, refer to the *Other income* section of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Discontinued Operations

2017

Net income from discontinued operations attributable to unitholders for the year ended December 31, 2017 is \$7.0 million compared to net income of \$147.7 million in the same period in 2016, representing a decrease of \$140.7 million. During May 2016, the Trust sold its U.S. property portfolio and discontinued its operations in the U.S. The net income of \$7.0 million during 2017 includes the impact of a reversal of an accrual as a result of a lower settlement of a dispute with a former tenant located in the U.S., partial reversal of bad debt provisions based on receivable collections, positive post-closing working capital adjustments, general and administrative recoveries (state tax refunds) and current income tax recoveries as a result of foreign exchange translation and accrual adjustments.

Q4 2017

Net loss from discontinued operations attributable to unitholders for the three months ended December 31, 2017 is \$0.1 million this quarter compared to net loss of \$14.0 million in the same period in 2016, representing an improvement in net income of \$14.0 million from the prior period. The net loss in the comparable quarter in 2016 was the result of transaction costs accrual in connection with additional professional fees in connection with the disposition of the U.S. portfolio and current tax accrual including the impact of foreign exchange translation on accrued taxes payable.

Operating Income

The IFRS operating income for the three months and year ended December 31, 2017 and 2016 are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Revenue				
Rental revenue	\$ 289,403	\$ 285,257	\$ 1,140,665	\$ 1,103,884
Property and asset management fees	3,823	2,968	14,554	13,186
Residential inventory sales	—	3,353	—	16,262
	\$ 293,226	\$ 291,578	\$ 1,155,219	\$ 1,133,332
Operating costs				
Rental operating costs				
Recoverable under tenant leases	\$ 100,110	\$ 101,058	\$ 399,580	\$ 397,776
Non-recoverable costs	5,353	5,233	18,270	19,684
Residential inventory cost of sales	—	4,550	—	16,188
	105,463	110,841	417,850	433,648
Operating income	\$ 187,763	\$ 180,737	\$ 737,369	\$ 699,684

2017

Operating income from continuing operations for the year ended December 31, 2017 is \$737.4 million compared to \$699.7 million during the same period in 2016, representing an increase of \$37.7 million or 5.4%. The increase of \$37.7 million is largely the net effect of the following:

- \$16.3 million higher operating income mainly due to property acquisitions (net of dispositions);
- \$13.6 million in same property operating income growth;
- \$3.2 million higher lease cancellation fees;
- \$2.8 million higher NOI from development projects completed that are not same property during the comparable periods;
- \$1.4 million higher property and management fee revenue; and
- \$0.5 million in higher straight-line rent.

Q4 2017

Operating income from continuing operations for the three months ended December 31, 2017 is \$187.8 million compared to \$180.7 million during the same period in 2016, representing an increase of \$7.0 million or 3.9%. The increase of \$7.0 million is largely the net effect of the following:

- \$4.9 million of same property operating income growth;
- \$3.2 million higher lease cancellation fees;
- \$1.2 million higher income due to inventory losses recognized in Q4 2016 due to timing of the cost of sales;
- \$0.9 million higher property and management fee revenue; partly offset by
- \$2.4 million in lower straight-line rent;
- \$0.4 million lower operating income mainly due to property dispositions (net of acquisition); and
- \$0.4 million lower NOI from development projects completed that are not same property during the comparable periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fourth quarter 2017 and 2016 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A. For a discussion of fair value adjustments during the quarter, refer to the *Other Income* section of this MD&A.

Net Operating Income (NOI)

This NOI section is a sub-section of the MD&A related to IFRS operating income. The NOI for the three months and year ended December 31, 2017 and 2016 is as follows:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Operating income (i)	\$ 187,763	\$ 180,737	\$ 737,369	\$ 699,684
Adjusted for the following:				
Property and asset management fees	(3,823)	(2,968)	(14,554)	(13,186)
Residential inventory				
Sales	—	(3,353)	—	(16,262)
Cost of sales	—	4,550	—	16,188
NOI	\$ 183,940	\$ 178,966	\$ 722,815	\$ 686,424
NOI as a percentage of rental revenue (excluding the impact of lease cancellation fees)	63.1%	62.7%	63.2%	62.1%

Add: NOI of proportionate share of equity accounted investments

RioCan-HBC JV:

Rental income (excluding straight-line rent)	3,160	2,969	12,336	8,379
Straight-line rent	412	490	1,893	1,500
Property operating costs	(377)	(268)	(1,326)	2,392
Other (ii)	(26)	176	132	933
NOI - RioCan's proportionate share	\$ 187,109	\$ 182,333	\$ 735,850	\$ 699,628

(i) In accordance with IFRS.

(ii) Includes NOI from RioCan's equity accounted investments in Dawson Yonge LP, WhiteCastle New Urban Fund, LP, WhiteCastle New Urban Fund 2, LP, WhiteCastle New Urban Fund 3, LP and WhiteCastle New Urban Fund 4, LP.

The increase in NOI as a percentage of rental revenue (excluding lease cancellation fees) for the three months and year ended December 31, 2017 over the comparable periods is due to occupancy growth and timing of cost recoveries. Refer to the next section of this MD&A for more detailed breakdown and analysis of NOI.

Same property NOI

Same property NOI for the three months and year ended December 31, 2017 and 2016 is as follows:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Same property (i)	\$ 174,125	\$ 169,232	\$ 651,149	\$ 637,584
NOI from income producing properties:				
Acquired (ii)	594	180	36,636	15,959
Disposed (ii)	3,171	3,942	13,587	17,940
	3,765	4,122	50,223	33,899
NOI from completed properties under development	1,984	2,370	7,412	4,626
Lease cancellation fees	3,330	145	6,225	3,052
Straight-line rent adjustment	736	3,097	7,806	7,263
NOI	\$ 183,940	\$ 178,966	\$ 722,815	\$ 686,424

Add: NOI of proportionate share of equity accounted investments

RioCan-HBC JV:

Rental income (excluding straight-line rent)	3,160	2,969	12,336	8,379
Straight-line rent	412	490	1,893	1,500
Property operating costs	(377)	(268)	(1,326)	2,392
Other (iii)	(26)	176	132	933
NOI - RioCan's proportionate share	\$ 187,109	\$ 182,333	\$ 735,850	\$ 699,628

Total straight-line rent - RioCan's proportionate share	\$ 1,148	\$ 3,587	\$ 9,699	\$ 8,763
--	----------	----------	----------	----------

(i) Refer to the same property NOI in the *Non-GAAP Measures* section of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- (ii) Includes properties acquired or disposed during the periods being compared.
- (iii) Includes NOI from RioCan's Canadian equity accounted investments in Dawson Yonge LP, WhiteCastle New Urban Fund, LP, WhiteCastle New Urban Fund 2, LP, WhiteCastle New Urban Fund 3, LP and WhiteCastle New Urban Fund 4, LP.

2017

Same property NOI for the year ended December 31, 2017 increased 2.1% or \$13.6 million compared to the same period in 2016. Approximately \$8.8 million of the increase related to higher occupancy, renewal rate growth and contractual rent increases and \$4.8 million is due to the timing of Target backfills and other expansion and redevelopment projects completed in 2017 and 2016.

As a component of total same property NOI growth, same property NOI from RioCan's properties in Canada's six major markets increased 2.2% and same property NOI from its secondary markets properties increased 1.7% when compared to the same period in 2016 for the year ended December 31, 2017. The Trust has started to disclose this information given its announced strategy to accelerate its portfolio focus in Canada's six major markets.

Total NOI for the year increased by \$36.4 million over the prior year. In addition to the above same property NOI growth, total NOI also benefited from a \$16.3 million increase from property acquisitions (net of dispositions) primarily due to property acquisitions completed in 2016 from Kimco and CPPIB, \$3.2 million in higher lease cancellation fees, \$0.5 million in higher straight-line rent and \$2.8 million in increased NOI from completed developments that are not same property during the comparable periods.

Q4 2017

Same property NOI for the three months ended December 31, 2017 increased 2.9% or \$4.9 million compared to the same period in 2016. Approximately \$3.8 million of the increase related to higher occupancy, renewal rate growth and contractual rent increases and \$1.1 million is due to an increase in NOI from Target backfills and other expansion and re-development projects completed.

As a component of total same property NOI growth, same property NOI from RioCan's properties in Canada's six major markets increased 3.0% and same property NOI from its secondary markets properties increased 2.6% compared to the same period in 2016 for the three months ended December 31, 2017. The Trust has started to disclose this information given its announced strategy to accelerate its portfolio focus in Canada's six major markets.

Total NOI during the quarter increased by \$5.0 million primarily due to the increase in same property NOI as the remaining factors largely offset each other. The \$3.2 million increase in lease cancellation fees over the comparable period was largely offset by \$2.4 million lower straight-line rent, \$0.4 million decrease due to property dispositions (net of acquisitions), and \$0.4 million decrease due to completed developments that are not same property during the comparable periods.

Other Income

The components of other income are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Interest income	\$ 1,950	\$ 1,657	\$ 7,586	\$ 5,744
Income from equity accounted investments	3,782	4,521	15,719	9,972
Fair value gains on investment properties, net	71,013	44,371	136,942	182,888
Investment and other income	11,979	6,762	57,014	33,268
Other income	\$ 88,724	\$ 57,311	\$ 217,261	\$ 231,872

Interest income for the three months and year ended December 31, 2017 was higher than comparable periods in 2016 primarily due to higher contractual interest rates on new mortgages and loans receivables and interest proceeds in Q2 2017 relating to the expropriation of certain land at one of our property locations.

Income from equity accounted investments includes our share of the income from the RioCan-HBC joint venture and gains from inventory sales from our other equity accounted investments. For further details on the 100% results of operations of the RioCan-HBC joint venture, refer to the *Co-ownerships Arrangements* section of this MD&A.

During the three months ended December 31, 2017, we recognized fair value gains that were \$26.6 million higher than the comparative period in 2016, primarily driven by capitalization rate reductions and higher stabilized net operating income on certain income properties, and updated valuation estimates on specific development properties.

During the year ended December 31, 2017, we recognized fair value gains that were \$45.9 million lower than the same period in 2016. This was due to fair value gains in the comparable period in 2016 driven by the revaluation of interests acquired in previously co-owned properties, in addition to the aforementioned reasons.

Investment and other income primarily includes gains on the sale of available-for-sale marketable securities as well as related dividend income, and transaction gains or losses on the sale of investment properties. During the three months ended December 31, 2017, the increase in investment and other income of \$5.2 million over the comparable period in 2016 is primarily the result of higher gains on the sale of available-for-sale marketable securities partially offset by lower dividends from available-for-sale marketable securities. Excluding a \$6.1 million transaction gain on the sale of investment property recognized in the prior year, investment and other income for the year ended December 31, 2017 increased by \$29.8 million primarily due to higher transaction gains from the sale of available-for-sale marketable securities in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Expenses

Interest costs

The components of interest costs are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Total interest	\$ 50,385	\$ 49,787	\$ 199,817	\$ 206,989
Interest costs capitalized to investment property	(7,996)	(6,323)	(28,399)	(27,462)
Net interest	\$ 42,389	\$ 43,464	\$ 171,418	\$ 179,527
Percentage capitalized to investment properties	15.9%	12.7%	14.2%	13.3%

Net interest costs have decreased by \$1.1 million and \$8.1 million, respectively, for the three months and the year ended December 31, 2017 compared to the same periods in 2016. Interest costs have decreased primarily due to interest savings on the refinancing of fixed rate debt and lower average debt outstanding as a result of debt repayment using net proceeds from the sale of the U.S. portfolio in 2016. As at December 31, 2017, the weighted average effective interest rate of our total debt is 3.35% (December 31, 2016 - 3.50%).

Interest capitalized to property under development for the three months ended December 31, 2017 increased by \$1.7 million compared to the same period in 2016, due to higher development activity partly offset by lower portfolio weighted average interest rate. Interest capitalized for the year ended December 31, 2017 increased \$0.9 million compared to 2016 due to similar reasons. Interest was capitalized to properties under development at weighted average effective interest rates of 3.49% and 3.54% for the three months and year ended December 31, 2017, respectively (three months and year ended December 31, 2016 – 3.66% and 3.94%, respectively).

General and Administrative

The components of general and administrative expenses are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Non-recoverable salaries and benefits	\$ 11,023	\$ 9,915	\$ 41,095	\$ 41,169
Capitalized to investment properties (i)	(2,206)	(1,666)	(8,538)	(7,883)
Internal leasing salaries and benefits	(2,839)	(2,538)	(9,290)	(9,718)
Non-recoverable salaries and benefits, net	5,978	5,711	23,267	23,568
Unit-based compensation expense	1,562	2,286	3,911	6,745
Depreciation and amortization	5,712	1,078	9,865	4,386
Other general and administrative (ii)	4,871	4,925	15,517	17,521
Total general and administrative expense	\$ 18,123	\$ 14,000	\$ 52,560	\$ 52,220
Total general and administrative expense as a percentage of rental revenue	6.3%	4.9%	4.6%	4.7%

(i) Amounts capitalized to investment properties are comprised of salaries and benefits related to development and landlord work.

(ii) Other general and administrative primarily includes information technology costs, public company costs, travel, marketing, legal and professional fees, as well as trustee costs.

2017

For the year ended December 31, 2017, general and administrative expenses increased \$0.3 million or 0.7% primarily due to:

- \$5.5 million increase in depreciation and amortization costs, of which \$0.8 million was due to depreciation and amortization of costs of RioCan's additional management information systems and \$4.7 million was due to accelerated depreciation of certain management information systems; partly offset by
- \$2.8 million decrease in unit-based compensation expense primarily as a result of a mark to market adjustment in 2017 related to employee/executive cash-settled compensation costs;
- \$2.0 million lower other general and administrative expenses mainly as a result of a mark to market adjustment in 2017 related to trustee cash-settled unit-based compensation costs and prior period office rent adjustment; and
- \$0.3 million decrease in non-recoverable salaries and benefits.

Q4 2017

For the three months ended December 31, 2017, general and administrative expenses increased \$4.1 million or 29.5% primarily due to accelerated depreciation of certain management information systems as noted above.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Internal Leasing Costs

Internal leasing costs are comprised of the payroll costs of our internal leasing department and related administration costs. For the three months and year ended December 31, 2017, leasing costs were relatively flat when compared to the prior comparative periods.

Transaction and Other Costs

Transaction and other costs increased \$1.8 million and \$2.2 million for the three months and year ended December 31, 2017, respectively. The increase for the year was the net effect of \$2.6 million of costs associated with transactions the Trust decided not to pursue further and \$2.6 million fair market value adjustment to a loan receivable, partially offset by \$3.0 million lower property acquisition and disposition costs when compared to the same period in the prior year.

For the fourth quarter 2017 and 2016 consolidated statements of income refer to the *Quarterly Results and Trend Analysis* section of this MD&A.

Funds from Operations (FFO)

The following table presents a reconciliation of IFRS net income attributable to unitholders to FFO on both a continuing and discontinued operations basis:

<i>(thousands of dollars, except per unit amounts)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net income from continuing operations attributable to unitholders	\$ 209,735	\$ 178,472	\$ 708,265	\$ 683,060
<i>Add back/(Deduct):</i>				
Fair value gains, net	(71,013)	(44,371)	(136,942)	(182,888)
Non-controlling interest relating to fair value losses	—	—	—	91
Fair value (gains) losses included in equity accounted investments	2,472	(1,476)	408	846
Deferred income tax recovery	(1,320)	(3,000)	(320)	(3,850)
Internal leasing costs	3,265	2,663	10,882	10,931
Transaction (gains) losses on investment properties, net (i)	—	—	(1,275)	(6,075)
Transaction costs on sale of investment properties	993	1,978	5,136	8,165
Preferred unit redemption (ii)	—	—	—	(4,304)
Preferred unit distributions	—	(1,757)	(3,514)	(8,667)
FFO from continuing operations	\$ 144,132	\$ 132,509	\$ 582,640	\$ 497,309
Net income (loss) from discontinued operations attributable to unitholders	\$ (62)	\$ (14,013)	\$ 7,021	\$ 147,687
<i>Add back/(Deduct):</i>				
Transaction costs (recoveries) on sale of U.S. investment properties (iii)	73	2,511	(549)	53,562
Current tax expense (recovery) on U.S. income properties sold	75	11,167	(2,871)	136,160
Fair value (gains) losses, net	—	—	—	(16,899)
Deferred income tax recovery	—	—	—	(230,675)
Internal leasing costs	—	—	—	706
Accrued property tax expense under IFRIC 21	—	—	—	25,145
Transaction (gains) losses on sale of U.S. investment properties, net (iii)	—	—	(1,644)	(65,116)
FFO from discontinued operations	\$ 86	\$ (335)	\$ 1,957	\$ 50,570
FFO	\$ 144,218	\$ 132,174	\$ 584,597	\$ 547,879
FFO per unit - basic	\$ 0.44	\$ 0.40	\$ 1.79	\$ 1.68
FFO per unit - diluted	\$ 0.44	\$ 0.40	\$ 1.79	\$ 1.68
Weighted average number of units - basic (in thousands)	326,040	326,466	326,805	325,386
Weighted average number of units - diluted (in thousands)	326,155	326,639	326,929	325,665
FFO payout ratio (iv)			78.8%	83.6%

(i) Represents net transaction gains connected to certain investment properties during the period.

(ii) Represents the excess of par redemption value over the carrying value of our Series A preferred trust units redeemed on March 31, 2016.

(iii) Includes transaction costs (recoveries) associated with the disposal of U.S. investment properties.

(iv) Calculated on a twelve month trailing basis. For a definition of the Trust's common unitholder distributions as a percentage of FFO, refer to the *Non-GAAP Measures* section of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FFO Highlights

2017

FFO for the year ended 2017 is \$584.6 million compared to \$547.9 million representing an increase of approximately \$36.7 million or 6.7%. On diluted per unit basis, FFO is \$1.79 compared to \$1.68, representing an increase of 6.3%, despite the sale of the U.S. portfolio in May 2016.

Continuing Operations

FFO from continuing operations increased from \$497.3 million during 2016 to \$582.6 million in 2017, representing an increase of \$85.3 million or 17.2%. The \$85.3 million increase in FFO from continuing operations for the period was primarily due to the following:

- \$36.2 million higher NOI (at RioCan's proportionate share) mainly as a result of acquisitions (net of dispositions), strong growth in same property NOI, development completions and higher lease cancellation fees;
- \$31.9 million increase in gains related to the sale of available-for-sale marketable securities;
- \$7.7 million lower interest costs (at RioCan's proportionate share);
- \$4.3 million Series A preferred unit redemption costs in Q1 2016;
- \$5.2 million less Series A and C preferred unit distributions;
- \$5.8 million in higher income from our equity accounted investments; and
- \$1.4 million higher property and management fee revenue; partially offset by
- \$4.6 million lower dividend income from the sale of available-for-sale marketable securities; and
- \$2.6 million in other costs associated with transactions the Trust decided not to pursue further.

Discontinued Operations

The \$48.6 million decrease in FFO from discontinued operations in 2017 was due to the sale of the U.S. portfolio in May 2016, which primarily consisted of lower NOI of \$68.7 million (adding back accrued property tax expense under IFRIC 21) partially offset by \$18.9 million of lower interest expense and \$2.5 million in less general and administrative expenses.

Q4 2017

FFO for the fourth quarter of 2017 is \$144.2 million compared to \$132.2 million representing an increase of approximately \$12.0 million or 9.1%. On a diluted per unit basis, FFO is \$0.44 compared to \$0.40, representing an increase of 9.3%.

Continuing Operations

FFO from continuing operations increased from \$132.5 million in the fourth quarter of 2016 to \$144.1 million in the fourth quarter of 2017, representing an increase of \$11.6 million or 8.8%. The \$11.6 million increase in FFO from continuing operations for the quarter was primarily due to the net effect of the following:

- \$4.8 million higher NOI (at RioCan's proportionate share) mainly as a result of strong growth in same property NOI;
- \$6.8 million increase in gains related to the sale of available-for-sale marketable securities;
- \$3.7 million in higher income from our equity accounted investments;
- \$1.8 million less Series C preferred unit distributions;
- \$1.2 million higher income due to inventory losses recognized in Q4 2016 due to timing of the cost of sales;
- \$1.1 million in lower interest expenses, partly offset by
- \$4.1 million higher general and administrative expenses mainly due to accelerated depreciation of certain management information systems;
- \$2.6 million higher other costs as a result of a one-time fair market value adjustment to a loan receivable; and
- \$1.5 million in lower dividend income on available-for-sale marketable securities.

Discontinued Operations

FFO from discontinued operations of \$0.4 million during the fourth quarter of 2017 was minor and flat when compared to the same period in 2016, due to immaterial adjustments subsequent to the sale of the U.S. portfolio.

FFO Payout Ratio

The FFO payout ratio of 78.8% for the twelve months ended December 31, 2017 is 4.8% lower than the comparable period FFO payout ratio of 83.6%. This decrease is mainly due to the Trust having replaced the FFO from discontinued operations following the sale of the U.S. portfolio with growth in FFO from continuing operations, as discussed earlier.

For the twelve months ended December 31, 2017, RioCan achieved its FFO payout ratio target of less than 80%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted Cashflow from Operations (ACFO)

RioCan's method of calculating ACFO is in accordance with the REALpac whitepaper issued in February 2017. The following table presents a reconciliation of cash provided by (used in) operating activities to ACFO:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Cash provided by operating activities	\$ 159,155	\$ 142,277	\$ 354,028	\$ 425,096
Adjustments to working capital changes for ACFO (i)	(6,898)	(29,544)	192,813	(139,802)
Distributions received from equity accounted investments	34,883	2,291	44,415	11,196
Transaction costs on sale of investment properties	1,066	4,488	4,587	61,727
Normalized capital expenditures (ii):				
Leasing commissions and tenant improvements	(6,875)	(6,250)	(27,500)	(25,000)
Maintenance capital expenditures recoverable from tenants	(3,750)	(3,750)	(15,000)	(15,000)
Maintenance capital expenditures not recoverable from tenants	(2,500)	(2,500)	(10,000)	(10,000)
Gain on disposition of available-for-sale marketable securities	10,504	3,681	45,981	14,040
Internal leasing costs related to development properties	602	400	2,009	1,746
Taxes related to non-operating activities (iii)	75	11,166	(2,871)	160,273
Non-controlling interests	—	—	—	(91)
ACFO (iv)	\$ 186,262	\$ 122,259	\$ 588,462	\$ 484,185

- (i) Includes working capital changes that, in management's view and based on the REALpac February 2017 whitepaper, are not indicative of sustainable cash flow available for distribution. Examples include, but are not limited to, working capital changes relating to residential inventory and developments, prepaid realty taxes and insurance, interest payable and interest receivable, sales and other indirect taxes payable to or receivable from applicable governments, income taxes and transaction cost accruals relating to acquisitions and dispositions of investment properties.
- (ii) Normalized capital expenditures are management's estimate of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. Refer to the *Presentation of Financial Information and Non-GAAP Measures* section of this MD&A for further discussion.
- (iii) Includes IFRIC 21 tax expenses and income tax expenses (recoveries) associated with the sale of our U.S. portfolio, which have been deducted in determining cash provided by (used in) operating activities from continuing and discontinued operations. This adjustment effectively excludes this item's impact in ACFO based on the REALpac February 2017 whitepaper.
- (iv) The ACFO definition per REALpac's February 2017 whitepaper does not prescribe for the deduction of preferred unit distributions in the ACFO calculation. Based on the REALpac whitepaper, the ACFO reported for the year ended December 31, 2017, therefore, did not deduct preferred unitholder distributions of \$3.5 million (for the three months and year ended December 31, 2016 - \$1.8 million and \$8.7 million, respectively).

The following table represents a breakdown of adjustments for working capital changes used in the calculation of ACFO. These are working capital changes that, in management's view and based on the REALpac February 2017 whitepaper, are not indicative of sustainable cash flow available for distribution:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Working capital changes related to:				
Taxes relating to the U.S. portfolio (i)	\$ (75)	\$ (11,166)	\$ 121,773	\$ (133,940)
Transaction related costs (ii)	13,617	3,515	19,196	(39,153)
Realty taxes and insurance	(34,084)	(31,294)	5,615	22,794
Residential inventory	1,713	2,341	37,519	(8,640)
Other (iii)	11,931	7,060	8,710	19,137
Adjustments to working capital changes for ACFO	\$ (6,898)	\$ (29,544)	\$ 192,813	\$ (139,802)

- (i) Includes income tax payment (accrual) relating to the sale of our U.S. portfolio in May 2016 and accrued property taxes under IFRIC 21.
- (ii) Represents costs associated with dispositions and acquisitions.
- (iii) Includes working capital changes related to interest payable and interest receivable, sales and other indirect taxes payable to or receivable from applicable governments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As ACFO starts with cash provided by (used in) operating activities, the adjustments outlined neutralize the above working capital changes to ACFO. The net impact to ACFO of working capital changes is determined as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Adjustments for other changes in working capital items as reported on the consolidated statements of cash flows	\$ 29,763	\$ 35,574	\$ (168,141)	\$ 125,741
Add: Adjustments to working capital changes for ACFO	(6,898)	(29,544)	192,813	(139,802)
Net working capital increase (decrease) included in ACFO	\$ 22,865	\$ 6,030	\$ 24,672	\$ (14,061)

ACFO Highlights

2017

ACFO for the year ended December 31, 2017 is \$588.5 million compared to \$484.2 million in the same period in 2016 representing an increase of \$104.3 million or approximately 21.5%. Excluding a one-time \$29.2 million special distributions from equity accounted investments, ACFO increased by \$75.1 million for the year or approximately 15.5%, primarily due to the net effect of the following:

- \$36.2 million in higher NOI (at RioCan's proportionate share) from continuing operations mainly as a result of acquisitions (net of dispositions), strong same property growth, development completions and higher lease cancellation fees;
- \$26.6 million in interest savings (at RioCan's proportionate share) comprising of \$7.7 million and \$18.9 million, respectively, from continuing and discontinued operations mainly due to lower average debt balances outstanding as a result of debt repayments using proceeds from the sale of the U.S. portfolio in 2016, and the refinancing of debt at lower interest rates;
- \$31.9 million increase in gains related to the sale of available-for-sale marketable securities;
- \$38.7 million in net working capital increases from continuing and discontinued operations;
- \$10.8 million in lower general and administrative expenses excluding non-cash depreciation and amortization and equity settled unit-based compensation expense; and
- \$4.0 million increase in distributions received from equity accounted investments; partly offset by
- \$68.7 million in lower NOI from discontinued operations due to the sale of our U.S. property portfolio; and
- \$2.5 million higher normalized capital expenditures.

Q4 2017

ACFO for the three months ended December 31, 2017 is \$186.3 million compared to \$122.3 million in the same period in 2016, representing an increase of \$64.0 million or approximately 52.4%. Excluding a one-time \$29.2 million special distributions from equity accounted investments, the ACFO increased by \$34.8 million for the quarter or approximately 28.5%, primarily due to the net effect of the following:

- \$4.8 million in higher NOI from continuing operations mainly as a result of strong same property growth;
- \$16.8 million in higher net working capital increase from continuing and discontinued operations relating to property operations;
- \$6.8 million increase in gains related to the sale of available-for-sale marketable securities;
- \$3.4 million increase in distributions received from equity accounted investments;
- \$1.2 million higher income due to inventory losses recognized in Q4 2016 due to timing of the cost of sales;
- \$1.1 million lower interest costs; and
- \$1.6 million in lower general and administrative expenses from continuing and discontinued operations excluding non-cash depreciation and amortization and equity settled unit-based compensation expense; partly offset by
- \$0.6 million higher normalized capital expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following tables present RioCan's ACFO payout ratio for the twelve months ended December 31, 2017 and 2016:

<i>(thousands of dollars, except where otherwise noted)</i>	Twelve months ended December 31, 2017					
		Q4 2017	Q3 2017	Q2 2017	Q1 2017	
ACFO (i)	\$ 588,460	\$ 186,262	\$ 149,405	\$ 135,210	\$ 117,583	
Distributions paid	460,944	115,154	115,363	115,264	115,163	
ACFO payout ratio	78.3%					
Net working capital increase (decrease) included in ACFO	\$ 24,671	\$ 22,865	\$ 13,941	\$ (858)	\$ (11,277)	

(i) The ACFO definition per REALpac's February 2017 whitepaper does not prescribe for the deduction of preferred unitholder distributions in the ACFO calculation. Based on the REALpac whitepaper, the ACFO for the twelve months ended December 31, 2017, therefore, did not deduct preferred unitholder distributions of \$3.5 million.

<i>(thousands of dollars, except where otherwise noted)</i>	Twelve months ended December 31, 2016					
		Q4 2016	Q3 2016	Q2 2016	Q1 2016	
ACFO (i)	\$ 484,185	\$ 122,259	\$ 130,329	\$ 109,334	\$ 122,263	
Distributions paid	457,925	115,050	114,926	114,618	113,331	
ACFO payout ratio	94.6%					
Net working capital increase (decrease) included in ACFO	\$ (14,061)	\$ 6,030	\$ 4,122	\$ (11,197)	\$ (13,016)	

(i) The ACFO definition per REALpac's February 2017 whitepaper does not prescribe for the deduction of preferred unit distributions in the ACFO calculation. Based on the REALpac whitepaper, the ACFO for the twelve months ended December 31, 2016, therefore, did not deduct preferred unitholder distributions of \$8.7 million.

The ACFO payout ratio for the twelve month period ended December 31, 2017 is 78.3%, which is 16.3% lower than the ACFO payout ratio for the comparable period as at December 31, 2016. Excluding a one-time special distribution of \$29.2 million, the ACFO payout ratio for the twelve month period ended December 31, 2017 would be 82.4%, which is 12.2% lower than the ACFO payout ratio for the comparable period in 2016. This decrease was primarily due to the increase in ACFO as noted in the previous section.

As previously discussed, the REALpac ACFO definition includes net working capital fluctuations relating to recurring operating activities. In RioCan management's view, this tends to introduce greater volatility in the ACFO payout ratio. Management, therefore, also uses the FFO payout ratio in addition to the ACFO payout ratio in assessing its distribution paying capacity because FFO is not subject to such working capital fluctuations.

OPERATIONS

RioCan has remained focused on its core portfolio and continues to execute its growth strategy through organic growth, development and selective acquisitions. In addition, RioCan has been selectively pruning its portfolio in order to increase its focus on the six Canadian major markets over the last ten years. In October 2017, it announced its strategy to accelerate its major markets focus and has since been working on execution of the strategy. As discussed in the *Six Canadian Major Markets* section of this MD&A, as at December 31, 2017, RioCan's share of income producing properties NLA in the six Canadian major markets has increased to 70.3% of total income producing properties NLA, including 34.9% in the Greater Toronto Area on NLA basis. As at December 31, 2017, 100% of the Trust's PUD NLA are in the six Canadian major markets.

The following is our percentage of portfolio net rental revenue derived from the six Canadian major markets:

At RioCan's interest	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Percentage of rental revenue (i)	76.1 %	75.2 %	75.2 %	75.4 %	75.5 %	75.6 %	75.7 %	75.0 %

(i) The six Canadian major markets include the following: Calgary, AB; Edmonton, AB; Montreal, QC; Ottawa, ON (includes Gatineau region); Toronto (includes the Greater Toronto Area), ON; and Vancouver, BC.

The percentage of portfolio rental revenue from the six Canadian major markets increased by 0.9% to 76.1% from Q3 2017 to Q4 2017. Approximately 40.9% of RioCan's portfolio annualized rental revenue was from the Greater Toronto Area as of December 31, 2017, which also increased by 0.9% from Q3 2017. The increase was related to the sale of six properties in the secondary markets in Q4 2017 as part of the execution of the Trust's acceleration of its major markets focus strategy.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Leasable Area (NLA)

(thousands of square feet)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
At 100% (i)								
Income properties	55,524	56,824	56,996	57,079	57,085	57,248	57,416	57,648
Properties under development (ii)	4,288	4,363	4,545	5,166	6,440	5,862	5,851	6,755
	59,812	61,187	61,541	62,245	63,525	63,110	63,267	64,403
At RioCan's interest								
Income properties	41,807	42,890	42,994	43,064	43,212	43,299	41,987	42,019
Properties under development (ii)	2,292	2,259	2,359	2,789	3,761	3,283	3,240	3,715
	44,099	45,149	45,353	45,853	46,973	46,582	45,227	45,734

(i) Includes non-owned anchors.

(ii) Includes the NLA for only active projects with detailed costs estimates, but excludes these projects' NLA for air rights sales and residential inventory NLA as well as vacant former Target space and completed NLA that has been transferred to IPP.

Income Properties NLA

As at December 31, 2017, NLA at RioCan's interest was 41,807,000 square feet compared to 43,212,000 square feet as at December 31, 2016. This decrease of 1,405,000 square feet of NLA in 2017 was due primarily to the disposition of six properties completed in Q4 2017 pursuant to the strategic initiative to accelerate the major markets focus, other dispositions including the sale of a portfolio of six chartered bank branches in British Columbia in August 2017 and the sale of the Cambie Street property in British Columbia in June 2017, and decommissioning of property space that is being redeveloped, partially offset by the NLA created by completed developments with new tenants commencing operations. Refer to the *Income Property Dispositions During 2017* and *Completed Developments in 2017* sections of this MD&A for further discussion.

Properties under Development NLA (PUD NLA)

During the year ended December 31, 2017, NLA decreased 1,469,000 square feet primarily due to completed developments with new tenants commencing operations, and the formation of a number of strategic 50/50 joint ventures through the sale of RioCan's interests in a number of development projects such as Sunnybrook Plaza in Toronto, Gloucester Residential in Ottawa, and 740 Dupont Avenue in Toronto.

Occupancy and Leasing

The following table shows the difference between our committed occupancy (tenants that have signed leases) and in-place occupancy (tenants that are in possession of their space and have straight-line rents included in revenue under IFRS). As at December 31, 2017, the gap between committed and in-place occupancy narrowed to 1.0%, down from 2.0% as at December 31, 2016, as a number of Target backfill tenants took possession during the year. Please refer to the *Target Leasing Update* section of this MD&A for further details.

The historical portfolio committed and in-place occupancy rates for our Canadian property operations are as follows:

(in percentages)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Committed	96.6	96.8	96.7	96.2	95.6	95.3	95.1	94.8
In-place	95.6	96.0	95.2	94.4	93.6	93.6	92.9	92.8

Committed Occupancy

RioCan's overall portfolio committed occupancy rate is calculated as leased NLA divided by total income properties NLA. As of December 31, 2017, the committed occupancy rate increased by 1.0% when compared to December 31, 2016 primarily due to leasing former Target space. The committed occupancy rate for the three months ended December 31, 2017 remained high at 96.6%, representing only a 0.2% decline from the three months ended September 30, 2017 despite Sears store closings in Q4 2017 given that Sears accounted for 0.8% of the Trust's NLA as of September 30, 2017.

In-Place Occupancy

RioCan's in-place occupancy rate of 95.6% represents the occupied NLA for which tenants are in possession of their space divided by total income properties NLA as of December 31, 2017. As of December 31, 2017, the in-place occupancy increased by 2.0% when compared to December 31, 2016 mainly due to tenants taking possession of the former Target units. Despite Sears store closures in Q4 2017, which accounted for 0.8% of the Trust's NLA as of September 30, 2017, the in-place occupancy rate for the three months ended December 31, 2017 remained high at 95.6%, down modestly by 0.4% mainly due to occupancy growth from tenants taking possession in former Target premises.

Subsequent to Q4 2017, we expect to generate approximately \$9.0 million of annualized net incremental rent under IFRS from tenants that have signed leases but have not taken possession of the space as of December 31, 2017. This includes base rent, operating cost recoveries and straight-line rent, but excludes operating costs capitalized while a property is under redevelopment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

An IFRS rent commencement timeline for the NLA on our properties that have been leased but are not currently in possession as at December 31, 2017 is as follows:

(in thousands, except percentage amounts)

At RioCan's interest	Annualized	Total	Q1 2018	Q2 2018	Q3 2018	Q4 2018+
Square feet:						
NLA commencing (i)		408	265	49	75	19
Cumulative NLA commencing (i)		408	265	314	389	408
% of NLA commencing			65.0%	12.0%	18.3%	4.7%
Cumulative % total			65.0%	77.0%	95.3%	100.0%
Average net incremental IFRS rent:						
Monthly net incremental IFRS rent commencing (ii)	\$ 9,048	\$ 754	\$ 535	\$ 79	\$ 121	\$ 19
Cumulative monthly net incremental IFRS rent commencing	\$ 9,048	\$ 754	\$ 535	\$ 614	\$ 735	\$ 754
% of net incremental IFRS rent for NLA commencing			71.0%	10.5%	16.0%	2.5%
Cumulative % total net incremental IFRS rent commencing			71.0%	81.5%	97.5%	100.0%

(i) Includes NLA expected to be completed from expansion and redevelopment projects.

(ii) Based on monthly IFRS rental revenue.

Of the 408,000 square feet of NLA commencing and \$9.0 million of annualized IFRS rent commencing, 51.1% of the NLA and 39.6% of the incremental IFRS rent relates to the leasing of former Target space and leasing of other tenant space in development projects, that are included in the *Project Phasing and NLA Completion* section of this MD&A.

Average Net Rent

The portfolio weighted average net rent per occupied square foot for our total property portfolio is as follows:

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average net rent per occupied square foot (i)	\$ 17.75	\$ 17.66	\$ 17.66	\$ 17.62	\$ 17.59	\$ 17.44	\$ 17.28	\$ 17.23

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

New Leasing Activity

RioCan's new leasing activity for the most recent eight quarters is as follows:

(in thousands, except per sqft amounts)	2017					2016				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
NLA at 100%	1,996	527	376	456	637	2,048	440	439	581	588
Average net rent per square foot (i)	\$ 19.61	\$ 19.16	\$ 22.20	\$ 17.64	\$ 19.88	\$ 19.22	\$ 20.01	\$ 19.19	\$ 21.86	\$ 16.05

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

On a full year basis, average net rent per square foot on new leasing activity increased by \$0.39 or 2.0%. The average net rent on new leasing completed in Q4 2017 is lower than Q3 2017 due to the execution of a higher proportion of leases completed in larger units in Q4 2017 compared to Q3 2017. On average, leases completed on larger units typically have lower per square foot rates as compared to smaller units.

Renewal Leasing

A summary of our 2017 and 2016 renewal leasing activity for the Canadian property portfolios is as follows:

(in thousands, except percentage and per sqft amounts)	2017					2016				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
Square feet renewed (at 100%)	4,508	728	1,120	1,327	1,333	4,255	1,309	857	1,120	969
Average net rent per square foot (i)	\$ 18.99	\$ 20.91	\$ 18.21	\$ 18.45	\$ 19.13	\$ 19.14	\$ 18.69	\$ 19.76	\$ 20.06	\$ 18.12
Increase in average net rent per square foot	\$ 1.04	\$ 0.89	\$ 0.90	\$ 0.83	\$ 1.44	\$ 1.08	\$ 1.39	\$ 1.22	\$ 0.64	\$ 1.05
Percentage increase in average net rent per square foot	5.8%	4.5%	5.2%	4.7%	8.2%	6.0%	8.1%	6.6%	3.3%	6.2%
Retention rate	91.1%	87.5%	93.6%	93.9%	88.6%	85.8%	84.0%	83.1%	91.6%	84.4%

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

The increase in average net rent per square foot for Q4 2017 was \$0.89 or 4.5% and the retention rate for Q4 2017 remained high at 87.5%. On a full year basis, the Trust achieved a higher retention rate in 2017 relative to 2016, albeit with a slightly lower percentage increase in average net rent per square foot. This was due to a higher percentage of fixed rate renewals completed in 2017 (41% in 2017 versus 38% in 2016). In addition, the fixed rate renewals completed in 2017 were at a lower average

MANAGEMENT'S DISCUSSION AND ANALYSIS

growth rates than the fixed rate renewals completed in 2016 (4.3% in 2017 versus 6.4% in 2016). This lower growth on fixed rate renewals partially offset the strong growth in market rate renewals that were completed in 2017 (6.4% in 2017 versus 5.9% in 2016), resulting in an overall renewal rent increase of 5.8% for 2017, slightly down from 2016.

Including anchor tenants, the components of renewal activity are as follows:

<i>(in thousands, except per sqft amounts)</i>	2017					2016				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
Renewals at market rental rates:										
Square feet renewed (at 100%)	2,656	500	605	714	837	2,659	760	591	813	494
Average net rent per square foot (i)	\$23.34	\$23.78	\$22.73	\$ 23.66	\$23.25	\$22.61	\$23.08	\$ 21.33	\$22.43	\$23.71
Renewals at fixed rental rates:										
Square feet renewed	1,853	228	516	613	496	1,596	549	265	307	475
Average net rent per square foot (i)	\$12.75	\$14.62	\$12.90	\$ 12.38	\$12.18	\$13.35	\$12.61	\$ 16.25	\$13.78	\$12.31

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

Tenant Vacancies

We strive to diversify our tenant base by location, property type and anchor type and by minimizing the degree of reliance on any single tenant. In the regular course of business, we will, however, encounter tenants that are subject to restructuring, insolvency or bankruptcy activities. In most cases, rental revenue continues to be paid by, or on behalf of, RioCan's tenants. We actively monitor such situations, and in those cases where vacancies occur, RioCan endeavours to replace tenants as quickly as possible at economically similar or better lease terms. In certain instances, such vacancies will give rise to rights in favour of other tenants in the property that is the subject of the vacancy. This is commonly referred to as a co-tenancy right and entitles co-tenants to certain rent reductions or lease terminations.

RioCan's vacancy activity for the most recent eight quarters is as follows:

<i>(in thousands of square feet)</i>	2017					2016				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
Total vacancies (i)										
At 100%	1,676	735	330	231	380	1,652	477	377	353	445
At RioCan's interest	1,365	639	226	179	321	1,376	399	309	314	354
Vacated space re-leased										
At 100%	462	201	84	59	118	762	143	163	208	248
At RioCan's interest	415	186	74	43	112	691	138	139	195	219

(i) Excluding lease buyouts.

During Q4 2017, RioCan experienced vacancies of approximately 735,000 square feet, of which RioCan's interest was 639,000 square feet. The average net rent on RioCan's ownership interest was \$16.93 per square foot. Approximately 201,000 square feet of space vacated in Q4 2017 has been leased to new tenants, of which RioCan's interest was 186,000 square feet, at an average net rent of \$21.24 per square foot.

During the year ended December 31, 2017, RioCan experienced vacancies of approximately 1,676,000 square feet, of which RioCan's interest was 1,365,000 square feet, which were relatively consistent when compared to the same period in the prior year. The average net rent on RioCan's ownership interest was \$17.31 per square foot for the vacated space. Approximately 462,000 square feet of space vacated during the year ended December 31, 2017 has been leased to new tenants, of which RioCan's interest was 415,000 square feet at an average net rent of \$22.16 per square foot. The relatively lower percentage of vacated space re-leased to total vacancies for both Q4 2017 and the year ended December 31, 2017 was mainly due to vacancies caused by the closing of Sears locations in Q4 2017. Redevelopment of the premises formerly occupied by Sears are underway.

Target Leasing Update

To date, leases included in our Target backfill progress will, if all are completed, produce net rental revenue of \$14.0 million versus \$10.6 million of the total base rental revenue lost through Target's departure (at RioCan's proportionate share) which represents a 32.1% increase. The incremental net rent revenue impact of the committed Target backfill has been included in the \$9.0 million annualized net incremental revenue IFRS rent under the *In-place Occupancy* section of this MD&A.

The expected total cost of the redevelopment work pertaining to the deals currently included in our backfill progress, including the costs that have been incurred to date, is estimated to be approximately \$154.0 million (approximately \$131.0 million at RioCan's proportionate share, which is being funded, in part, by our \$88.3 million in net settlement proceeds received from Target in 2015). The overall redevelopment costs will evolve as additional tenants are secured, development plans are completed and construction costs finalized. Consistent with properties under development, interest costs are capitalized during the Target backfill process prior to tenants taking possession of a space using the same weighted average interest of 3.49% and 3.54%, respectively, for the three months and year ended December 31, 2017 (December 31, 2016 - 3.66% and 3.94%, respectively). Once the tenants take possession, these interest costs will be expensed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sears Space Leasing Update

In June 2017, Sears Canada Inc. filed for protection under the Companies' Creditors Arrangement Act ("CCAA") and subsequently announced the liquidation of all of its stores. RioCan had nine locations under lease (one department store, an outlet centre and seven Home stores). The nine locations totaled 381,000 square feet of NLA at RioCan's interest and paid an average net rent of \$8.84 per square foot with an average remaining lease term of 2.98 years. The nine locations accounted for approximately 0.6% of the annual rental revenue of the Trust and 0.8% of NLA as of September 30, 2017. One of these locations (Timmins Square) ceased operations in August 2017 and the remaining eight locations closed during Q4 2017.

RioCan and its partner Hudson Bay Company secured a surrender agreement with Sears Canada Inc. for its 104,000 square foot location at RioCan Oakville Place, in Oakville, Ontario for a fee of \$2.0 million at RioCan's interest (\$4.0 million at 100%). By terminating the 36 year-old lease with Sears, the co-owners gained the ability to re-tenant the premises with dynamic retailers at current market rents. The lease surrender agreement also removes development restrictions held by Sears which will allow the co-owners to pursue potential intensification at the site given its close proximity to the Queen Elizabeth Highway and Go Transit Station.

In addition, at Garden City Shopping Centre in Winnipeg, Manitoba, RioCan and its partner (Bayfield Realty Advisors) acquired the freehold interest in the Sears location for a purchase price of \$2.4 million at RioCan's interest (\$8.0 million at 100%). The acquisition of the 92,500 square foot Sears premises provides the co-owners the opportunity to replace the poor performing anchor with dynamic retailers that will enhance the performance of the recently renovated Garden City Shopping Centre, and unlocks existing density on the site that will permit further commercial development. RioCan has completed a deal with Seafood City to lease approximately 40,000 square feet of the premises and is in the latter stages of negotiation with two national box tenants for the remainder of the NLA.

RioCan is making significant progress on releasing the former Sears premises, with leases completed or in the final stages of negotiation on 320,000 square feet, or 84% of the NLA at RioCan's interest. These leases will replace 130% of the revenue from all of the former Sears space. Replacement rent on the entire space is expected to exceed previous rent from Sears by approximately \$5.00 per square foot (60% increase), with estimated cost of tenanting work considerably lower than the average Target releasing. Unlike our previous experience with the Target premises, we will not be required to undergo the time-consuming process of obtaining site plan approval to convert the majority of the Sears premises to multi-tenant units. As such, we anticipate that replacement tenants will be in possession of their spaces by the end of 2018 and will be open and paying rent in Q1/Q2 of 2019.

Other Store Closures

During January 2017, Grafton Fraser, the company that owns Tip Top Tailors, was granted court protection under the *Companies Creditors Arrangement Act (CCAA)*. At the time of the tenant's filing, RioCan had 20 locations under lease representing approximately 92,000 square feet of total NLA with an average remaining lease term of 3.3 years. We received notice from Grafton Fraser that three of our locations totaling 8,000 square feet will be disclaimed. We have reached an agreement for 17 of the 20 locations for Grafton Fraser to remain as a tenant.

In April 2017, Payless Shoesource Inc. (Payless) filed for Chapter 11 in the U.S and in August announced that it had emerged from restructuring. Currently, RioCan has 21 locations under lease representing approximately 62,000 square feet of total NLA with an average remaining lease term of 5.1 years. Payless is up to date on its rent payments and the Trust will monitor the situation.

In August 2017, Toys R Us filed for protection under the CCAA. In January 2018 the company announced the closures of approximately 180 stores in the US, however, Canadian stores are to remain open for business as usual. Currently, RioCan has two locations under lease representing approximately 49,000 square feet of total NLA with an average remaining lease term of 6.1 years, representing 0.1% of annual rent revenue of the Trust. Toys R Us is up to date on its rent payments and the Trust is monitoring the situation.

Overall, store closures in 2017 are not expected to have a material impact on the Trust's operations.

Lease Expiries

Lease expiries for the next five years are as follows:

(in thousands, except per sqft and percentage amounts)

At RioCan's interest	NLA	Lease expiries for the years ending				
		2018	2019	2020	2021	2022
Square feet	41,807	3,424	5,325	4,935	4,911	4,071
Square feet expiring/Portfolio NLA		8.2%	12.7%	11.8%	11.7%	9.7%
Average net rent per occupied square foot		\$ 19.23	\$ 18.44	\$ 17.51	\$ 18.48	\$ 20.23

MANAGEMENT'S DISCUSSION AND ANALYSIS

The components of our lease expiries for 2018 are as follows:

(in thousands, except per sqft amounts)

At RioCan's interest	Total
<u>2018 expiries at market rental rates:</u>	
Square feet expiring	2,539
Average net rent per sqft	\$ 21.19
<u>2018 expiries with fixed rental rate options:</u>	
Square feet expiring	885
Average in-place net rent per sqft	\$ 13.59
Average renewal net rent per sqft	\$ 14.35
Increase in average net rent per sqft	\$ 0.76
Total:	
Square feet expiring	3,424
Average net rent per sqft	\$ 19.23

Contractual Rent Increases

Certain of our leases allow for periodic increases in rates during the lease term which contributes to growth in same property NOI. Contractual rent increases (including rent increases at the time of renewal) in each year for the next five years for our properties are as follows:

(in thousands of dollars)

For the years ending	2018	2019	2020	2021	2022
Contractual rent increases	\$ 8,441	\$ 6,892	\$ 4,772	\$ 4,114	\$ 3,821

Property Ownership by Geographic Area

(in thousands of square feet)	NLA at RioCan's Interest	NLA at Partners' Interest	Retailer Owned Anchors	Total NLA	Percentage of annualized gross rental revenue	Committed occupancy percentage
As at December 31, 2017						
Ontario	26,608	3,334	4,987	34,929	66.0%	96.4%
Alberta	5,665	1,177	2,166	9,008	14.8%	98.1%
Quebec	5,016	273	864	6,153	8.8%	95.7%
British Columbia	3,281	—	378	3,659	7.7%	96.6%
Eastern Canada	944	52	220	1,216	2.0%	95.9%
Manitoba	293	266	—	559	0.7%	97.4%
Income producing properties	41,807	5,102	8,615	55,524	100.0%	96.6%
Properties under development	2,292	1,996	—	4,288	—%	—%
Investment properties	44,099	7,098	8,615	59,812	100.0%	96.6%

Six Canadian Major Markets

(in thousands of square feet)	NLA at RioCan's Interest	NLA at Partners' Interest	Retailer Owned Anchors	Total Site NLA
As at December 31, 2017				
Calgary	3,196	506	1,308	5,010
Edmonton	1,723	672	758	3,153
Montreal	3,201	135	260	3,596
Ottawa (i)	4,889	376	1,315	6,580
Greater Toronto Area (ii)	14,597	2,194	2,293	19,084
Vancouver (iii)	1,790	—	325	2,115
Income producing properties	29,396	3,883	6,259	39,538
Properties under development	2,292	1,996	—	4,288
Total	31,688	5,879	6,259	43,826

(i) Area extends from Nepean and Vanier to Gatineau, Quebec.

(ii) Area extends north to Barrie, Ontario; west to Burlington, Ontario; and east to Oshawa, Ontario.

(iii) Area extends east to Abbotsford, British Columbia.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 31, 2017, the committed occupancy for our six major markets is 97.6%, down by 0.4% compared to 98.0% at September 30, 2017 mainly due to Sears stores closures, but increased by 1.1% from 96.5% at December 31, 2016 primarily due to leasing of former Target space.

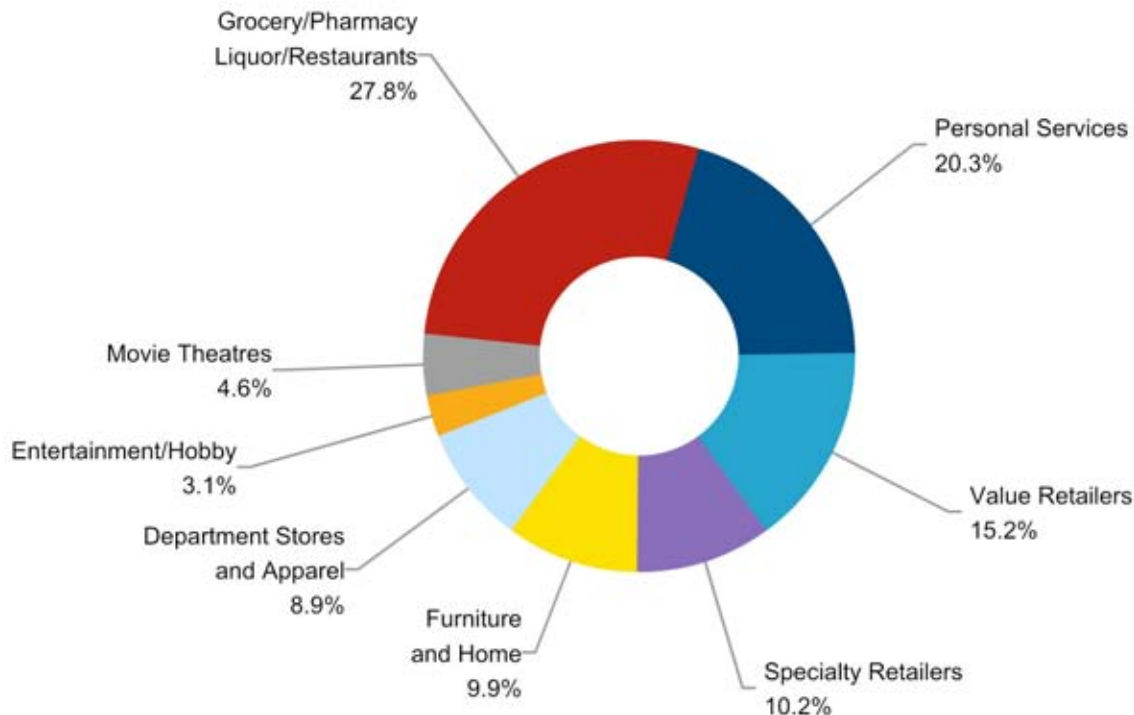
As at December 31, 2017, RioCan's share of income producing properties NLA in the six Canadian major markets account for 70.3% of total income producing properties NLA, including 34.9% in the Greater Toronto Area on NLA basis. As at December 31, 2017, 100% of the Trust's PUD NLA is in the six Canadian major markets. As discussed earlier in this MD&A, 76.1% of the Trust's annual rent revenue is generated from the six Canadian major markets as of December 31, 2017, including 40.9% from the GTA.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tenant Profile

As discussed under the *Outlook* section of this MD&A, RioCan is well aware that the Canadian retail environment has been changing, although fundamentals remain solid. The key is how the Trust adapts itself to the ever changing retail landscape with a vision for future trends and growth patterns. The Trust has been increasing its major markets focus while evolving its tenant mix to better suit communities' needs, make its tenant mix more resilient to the impact of e-commerce, and increase the growth profile of its portfolio. It has been reducing its tenant mix in department stores and apparel and in electronics and books, and increasing its tenant mix in groceries, pharmacies, restaurants, personal services, specialty retailers and value retailers.

As of December 31, 2017, RioCan's tenant profile is as follows based on annualized net rent revenues:



Retailer Category	% of Rent	Key Brands (i)
Grocery/ Pharmacy Liquor/Restaurants	27.8%	Loblaws metro Sobey's SHOPPERS DRUG MART Rexall LCBO
Personal Services	20.3%	TD Canada Trust RBC Royal Bank BMO LAIFITNESS. GoodLife FITNESS
Value Retailers	15.2%	WAL-MART COSTCO DOLLARAMA WINNERS Marshalls
Specialty Retailers	10.2%	SPORT CHEK PETSMART Michaels STAPLES
Furniture and Home	9.9%	LOWE'S HOME DEPOT HOMESENSE BED BATH & BEYOND Pier 1 Imports JYSK
Department Stores and Apparel	8.9%	REDUCED PRICE DAYS H.M. carter's OSHKOSH GAP OLD NAVY Reitmans
Entertainment/ Hobby	3.1%	Indigo Chapters BEST BUY SOURCE EB GAMES
Movie Theatres	4.6%	CINEPLEX FAMOUS PLAYERS LANDMARK THEATRES

(i) All trademarks and registered trademarks in the chart above are the property of their respective owners.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Top 50 Tenants

We strive to reduce our exposure to rental revenue risk in our portfolio through geographical diversification, staggered lease maturities, investment in residential developments, diversification of revenue sources resulting from a large tenant base, avoiding dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of our gross revenue and ensuring a considerable portion of rental revenue is earned from national and anchor tenants.

At December 31, 2017, RioCan's 50 largest tenants measured by annualized gross rental revenue have the following profile:

Rank	Tenant name	Annualized percentage of total rental revenue	Number of locations	NLA (in thousands of square feet)	Percentage of total NLA	Weighted average remaining lease term (years) (i)
1	Loblaws/Shoppers Drug Mart (ii)	4.8%	80	2,067	4.9%	7.5
2	Canadian Tire Corporation (iii)	4.3%	82	2,050	4.9%	4.8
3	Walmart	4.2%	29	3,607	8.6%	9.3
4	Cineplex/Galaxy Cinemas	3.9%	27	1,443	3.5%	7.4
5	Winners/HomeSense/Marshalls	3.9%	72	1,942	4.6%	6.8
6	Metro/Super C/Loeb/Food Basics	3.4%	49	1,999	4.8%	6.7
7	Cara/Prime Restaurants/St-Hubert	1.8%	104	504	1.2%	7.0
8	Lowe's	1.8%	13	1,517	3.6%	10.4
9	Dollarama	1.6%	83	760	1.8%	6.3
10	Sobeys/Safeway	1.6%	25	898	2.1%	8.4
11	Staples/Business Depot	1.5%	33	740	1.8%	6.2
12	GoodLife Fitness	1.3%	29	624	1.5%	11.1
13	Petsmart	1.2%	30	484	1.2%	6.2
14	Michaels	1.2%	25	502	1.2%	7.6
15	Reitmans/Penningtons/Smart Set/Addition-Elle/Thyme Maternity	1.2%	73	372	0.9%	4.4
16	Bank Of Montreal	1.1%	43	333	0.8%	6.5
17	TD Bank	1.1%	52	258	0.6%	6.0
18	Chapters/Indigo	0.8%	20	284	0.7%	8.1
19	Best Buy	0.8%	14	291	0.7%	4.2
20	Leon's/The Brick	0.8%	13	347	0.8%	4.7
21	Hudson's Bay Company	0.7%	9	472	1.1%	10.8
22	Liquor Control Board Of Ontario (LCBO)	0.6%	21	192	0.5%	10.5
23	Value Village	0.6%	16	350	0.8%	6.3
24	LA Fitness	0.6%	8	306	0.7%	9.8
25	Tim Hortons/Burger King/Popeyes	0.6%	64	168	0.4%	7.0
26	DSW/Town Shoes/The Shoe Company	0.6%	32	204	0.5%	4.9
27	The Bank Of Nova Scotia	0.6%	29	140	0.3%	4.3
28	Jysk Linen	0.6%	15	353	0.8%	8.8
29	Rexall Pharma Plus	0.6%	13	133	0.3%	8.8
30	Bluenotes/Stitches/Suzy Shier/Urban Planet	0.6%	53	375	0.9%	4.7
31	Ardene	0.5%	37	181	0.4%	4.9
32	Bed Bath & Beyond	0.5%	12	256	0.6%	7.5
33	Canadian Imperial Bank of Commerce	0.5%	26	121	0.3%	4.1
34	Old Navy/The Gap/Banana Republic	0.5%	20	184	0.4%	3.8
35	London Drugs	0.5%	8	225	0.5%	10.2
36	Genuine Canadian Corp.	0.5%	33	143	0.3%	6.5
37	Sleep Country Canada	0.4%	26	121	0.3%	4.7
38	Overwaitea Foods	0.4%	5	200	0.5%	8.1
39	Bell/The Source	0.4%	66	85	0.2%	4.6
40	Subway	0.4%	80	90	0.2%	5.1
41	Golf Town	0.4%	9	155	0.4%	3.1
42	Royal Bank of Canada	0.4%	18	87	0.2%	4.6
43	Easyhome Ltd.	0.4%	49	124	0.3%	3.4
44	La Vie en Rose	0.4%	21	103	0.2%	6.6
45	Bouclair	0.3%	15	126	0.3%	3.4
46	Dollar Tree Stores	0.3%	18	149	0.4%	5.0
47	Benix & Co Inc.	0.3%	23	117	0.3%	7.5
48	Brewers Retail	0.3%	21	115	0.3%	6.3
49	Moores	0.3%	17	102	0.2%	3.9
50	MTY Food Group	0.3%	64	68	0.2%	4.1
		56.4%	1,724	26,467	63.0%	7.0

(i) Weighted average remaining lease term based on annualized gross rental revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(ii) Loblaws/Shoppers Drug Mart includes No Frills, Fortinos, Zehrs Markets, Joe Fresh and Maxi.

(iii) Canadian Tire Corporation includes Canadian Tire, PartSource, Mark's, Sport Chek, Sports Experts, National Sports and Atmosphere.

ASSET PROFILE

Investment Property

Refer to note 5 of the 2017 Annual Consolidated Financial Statements for the change in consolidated IFRS carrying values of our income properties.

Fair Valuation of Investment Properties

The net fair value increase for the Trust's investment properties for the year ended December 31, 2017 was \$136.9 million based on the weighted average capitalization rate of the Trust's investment portfolio at 5.56%, which compressed by 8 basis points from 5.64% at December 31, 2016. Fair value gains of \$71.0 million for the three months ended December 31, 2017 were based on a weighted average capitalization rate of 5.56%, which compressed by 5 basis points from 5.61% as of September 30, 2017. The fair value gains for Q4 2017 and for the year were primarily driven by capitalization rate reductions in certain urban markets and higher stabilized net operating income on certain income properties and updated valuation estimates on specific development properties.

Valuation processes

Internal valuations

RioCan measures the vast majority of its investment properties, including co-owned properties, using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of the Trust's management. The internal valuation team's processes and results are reviewed and approved by the Valuations Committee on a quarterly basis.

The Trust's Valuations Committee is responsible for approving any fair value changes to the investment properties and consists of senior management of the Trust including the President & Chief Operating Officer, Chief Financial Officer, and other executive members.

External valuations

Depending on the property asset type and location, management may opt to obtain independent third party valuations from firms that employ experienced valuation professionals having the required qualifications in property appraisals for purposes of adopting such appraised values in the case of land parcels or assessing the reasonableness of its internal investment property valuations. During 2017, the Trust obtained a total of 35 external property appraisals (including 11 vacant land parcels), which supported an IFRS fair value of approximately \$3.0 billion or 22% of the Trust's investment property portfolio as at December 31, 2017.

On a go-forward basis, the Trust will continue to select approximately six investment properties for external appraisal on a quarterly basis or 24 investment properties a year.

Capitalization Rates

The capitalization rate is based on the location and quality of the properties and takes into account market data at the valuation date. The table below provides details of the average capitalization rate (weighted on stabilized NOI) by market category:

As at	Weighted average capitalization rate	
	December 31, 2017	December 31, 2016
Major markets (i)	5.28%	5.36%
Secondary markets	6.32%	6.33%
Total average portfolio capitalization rate	5.56%	5.64%

(i) Includes properties located in the six major Canadian markets of Calgary, Edmonton, Montreal, Ottawa, Vancouver and the Greater Toronto Area.

Income Property Acquisitions During 2017

During the year ended December 31, 2017, we completed the acquisition of one income property for \$16.5 million. In connection with this acquisition, we assumed debt of \$8.6 million.

Subsequent to December 31, 2017, the Trust acquired Thickson Centre in Whitby, Ontario for a purchase price of \$31.1 million at a capitalization rate of 6.16% with no assumption of debt. The Trust also acquired the remaining one third interest in an existing income property in Newmarket, Ontario for a purchase price of \$18.5 million at a capitalization rate of 5.65% and assumed a mortgage payable with a fair value of \$9.4 million.

Income Property Dispositions During 2017

During the year ended December 31, 2017, we disposed of interests in 14 properties for sales proceeds aggregating \$294.8 million. Details are provided in the table below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Property name and location	Quarter disposed	Capitalization rate	RioCan's sales price (thousands of dollars)	Debt associated with property (thousands)	GLA disposed of at RioCan's interest (thousands of sqft)	Ownership interest disposed of by RioCan
Five properties in ON, BC and SK (sold to CT REIT) (i)	Q4	6.25%	\$ 135,197	\$ 21,700	978	100%
Brookside Mall, Fredericton, NB	Q4	10.20%	10,000	—	140	50%
BMO West Coast Portfolio, BC	Q3	3.72%	30,309	—	50	100%
Cambie Street, Vancouver, BC	Q2	3.29%	94,200	—	148	100%
A partnership interest	Q1	n.a.	25,114	—	—	24.9%
Total 2017 Dispositions			\$ 294,820	\$ 21,700	1,316	

(i) The weighted average capitalization rate for the seven properties under the total portfolio deal with CT REIT is 6.12%. The remaining two properties are expected to close in Q1 2018.

Refer to Business Overview section of this MD&A for information on firm and conditional dispositions under contract as of February 13, 2018.

Co-ownership Arrangements

Co-ownership activities represent real estate investments in which RioCan has joint control and either owns an undivided interest in the assets and liabilities with its co-owners (joint operations) or ownership rights to the residual equity of the co-ownership (joint ventures).

The Trust's co-ownership arrangements are governed by co-ownership agreements with its various co-owners. RioCan's standard co-ownership agreement provides exit and transfer provisions, including, but not limited to, buy/sell and/or right of first offers or refusals that allow for the unwinding of these co-ownership arrangements should the circumstances necessitate.

Generally, the Trust is only liable for its proportionate share of the obligations of the co-ownerships in which it participates, except in limited circumstances. Credit risk arises in the event that co-owners default on the payment of their proportionate share of such obligations. Co-ownership agreements will typically provide RioCan with an option to remedy any non-performance by a defaulting co-owner. These credit risks are mitigated as the Trust has recourse against the asset under its co-ownership agreements in the event of default by its co-owners, in which case the Trust's claim would be against both the underlying real estate investments and the co-owners that are in default. In addition to the matter noted above, RioCan has provided guarantees on debt totalling \$348.9 million as at December 31, 2017 on behalf of co-owners (December 31, 2016 - \$340.9 million).

Selected Financial Information of Joint Operations (Proportionate Share)

(thousands of dollars)	RioCan's ownership interest	Number of investment properties (i)	Assets (ii)	Liabilities (ii)	Three months ended December 31, 2017 NOI (iii)	Year ended December 31, 2017 NOI (iii)
As at December 31, 2017						
Allied	50%	4	\$ 138,488	\$ 14,933	\$ 333	\$ 1,341
Allied/Diamond (The Well)	50%	1	193,261	16,499	34	194
Bayfield	30% - 40%	5	105,736	46,342	2,129	7,042
CMHC Pension Fund	50%	1	48,874	29,678	608	2,190
CPPIB	40% - 50%	3	240,574	18,387	2,050	6,473
First Gulf	50%	1	82,335	46,163	1,036	4,147
KingSett	50%	3	415,864	203,101	3,034	11,426
Metropia/CD	50%	1	46,701	1,944	85	230
Metropia/Bazis	50%	1	209,103	129,985	—	—
Sun Life	40% - 50%	2	97,735	14,237	1,326	5,223
Tanger	50%	4	164,510	11,908	2,387	9,524
Trinity	50% - 81.25%	9	322,133	147,483	3,911	16,309
Other	50% - 75%	18	270,471	74,726	3,071	11,491
Total joint operations		53	\$ 2,335,785	\$ 755,386	\$ 20,004	\$ 75,590

(i) Includes properties under development and is based on the number of proportionately owned properties as at December 31, 2017.

(ii) Assets and liabilities are stated at RioCan's proportionate share.

(iii) Represents the proportionate share of NOI related to all properties for which we owned a proportionate interest during the reporting period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Information of Joint Operations and Joint Ventures

Total Assets

<i>(thousands of dollars)</i>						December 31,
As at December 31, 2017	Income properties	PUD (i)	Residential development inventory (iii)	Other (ii)	Total assets	2016
Proportionately consolidated joint operations						
Allied	\$ 31,875	\$ 84,644	\$ 16,099	\$ 5,870	\$ 138,488	\$ 86,780
Allied/Diamond (The Well) (v)	—	187,249	—	6,012	193,261	131,881
Bayfield	99,443	4,237	—	2,056	105,736	103,967
CMHC Pension Fund	48,486	—	—	388	48,874	41,841
CPIIB	147,532	87,280	—	5,762	240,574	239,060
First Gulf	76,261	5,315	—	759	82,335	80,210
KingSett	280,333	130,405	—	5,126	415,864	347,013
Metropia/CD	—	6,717	38,094	1,890	46,701	—
Metropia/Bazis	2,510	113,085	72,561	20,947	209,103	169,174
Sun Life	97,400	—	—	335	97,735	97,065
Tanger	150,310	10,303	—	3,897	164,510	179,314
Trinity	285,977	31,041	—	5,115	322,133	397,984
Other	175,345	72,189	5,250	17,687	270,471	179,524
Total assets of proportionately consolidated joint operations	\$ 1,395,472	\$ 732,465	\$ 132,004	\$ 75,844	\$ 2,335,785	\$ 2,053,813
Equity accounted joint ventures (iv):						
HBC (RioCan-HBC JV)	\$ 242,500	\$ —	\$ —	\$ 1,209	\$ 243,709	\$ 232,256
Marketvest Corporation/Dale-Vest Corporation (Dawson-Yonge LP)	9,012	—	—	56	9,068	8,938
Total assets of equity accounted joint ventures	251,512	—	—	1,265	252,777	241,194
	\$ 1,646,984	\$ 732,465	\$ 132,004	\$ 77,109	\$ 2,588,562	\$ 2,295,007

- (i) The value of properties under development includes active development projects as well as the value of development lands where development is currently non-active.
- (ii) Primarily includes cash and cash equivalents, rents receivable and other operating expenditures recoverable from tenants.
- (iii) Residential development inventory represents the Yonge Eglinton Northeast Corner ePlace in Toronto with Metropia and Bazis Inc., development at the prestigious Yorkville area of Toronto with Metropia and CD, the condominium component of the King Portland Centre in Toronto with Allied, and the Windfields Farm townhomes in Oshawa, Ontario with Tribute.
- (iv) Includes the Trust's equity accounted joint arrangements only and excludes our equity accounted investment in the WhiteCastle Funds.
- (v) The Trust has a 50% interest in the commercial component and a 40% interest in the residential component of The Well project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total NOI

<i>(thousands of dollars)</i>	Year ended December 31,	
	2017	2016
Proportionately consolidated joint operations (i)		
Allied	\$ 1,341	\$ 1,271
Allied/Diamond (The Well)	194	347
Bayfield	7,042	6,462
CMHC Pension Fund	2,190	1,995
CPIIB	6,473	15,341
First Gulf Corporation	4,147	4,406
Kimco	—	5,361
KingSett	11,426	10,348
Metropia/CD	230	—
Sun Life	5,223	5,102
Tanger	9,524	9,315
Trinity	16,309	20,363
Other	11,491	8,534
Total NOI of proportionately consolidated joint operations	\$ 75,590	\$ 88,845
Equity accounted joint ventures (ii):		
HBC (RioCan-HBC JV)	\$ 12,903	\$ 12,271
Marketvest Corporation/Dale-Vest Corporation (Dawson-Yonge LP)	497	495
Total NOI of equity accounted joint ventures	13,400	12,766
Total joint arrangements	\$ 88,990	\$ 101,611

(i) Represents the proportionate share of NOI related to all properties for which we owned a proportionate interest during the year.

(ii) Includes the Trust's equity accounted joint arrangements only and excludes our equity accounted investment in the WhiteCastle Funds.

RioCan-HBC JV

As at December 31, 2017, the Trust's ownership interest in RioCan-HBC JV was 12.0% (December 31, 2016 - 11.6%). The following tables present the financial results of RioCan-HBC JV on a 100% basis:

Condensed Statements of Financial Position

<i>(thousands of dollars)</i>	December 31, 2017		December 31, 2016
As at			
Current assets	\$ 10,045	\$	9,067
Non-current assets	2,003,865		1,980,330
Current liabilities	12,747		10,675
Non-current liabilities (i)	782,892		546,114
Net assets	\$ 1,218,271	\$	1,432,608
RioCan's share of net assets in RioCan-HBC JV (ii)	\$ 147,897	\$	167,581

(i) Includes mortgages payable and lines of credit with maturities beyond twelve months.

(ii) Represents RioCan's proportionate share of net assets and other acquisition-related costs.

Condensed Statements of Income

<i>(thousands of dollars)</i>	Year ended December 31,	
	2017	2016
Rental revenue	\$ 129,766	\$ 131,653
Operating expenses	11,387	10,643
Fair value gains (losses)	(3,722)	(11,825)
Interest expense	18,386	15,999
Net income	\$ 96,271	\$ 93,186
RioCan's share of net income in RioCan-HBC JV	\$ 11,347	\$ 10,391

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Expenditures on Income Properties

Maintenance capital expenditures

Maintenance capital expenditures refer to investments that are necessary to maintain the existing earnings capacity of our property portfolio and are dependent upon many factors, including, but not limited to, lease expiry profile, tenant vacancies, the age and location of the income properties and general economic and market conditions, which impact the level of tenant bankruptcies. As at December 31, 2017, the estimated weighted average age of our income property portfolio is approximately 24 years (December 31, 2016 - approximately 23 years). Maintenance capital expenditures consist primarily of third party leasing commissions, tenant improvements and certain recoverable and non-recoverable capital expenditures. Actual maintenance capital expenditures can vary widely from period to period depending on a number of factors as noted above, as well as the level of acquisition and disposition activity particularly given our targeted over \$2.0 billion asset sales over the next two to three years with our acceleration of major markets focus strategy announced in October 2017.

As a result, management believes that for the purpose of determining ACFO which, as discussed in the *Non-GAAP Measures* section of this MD&A, is used as an input in assessing a REIT's distribution payout ratio, normalized capital expenditures are more relevant than using actual capital expenditures. Refer to the *Non-GAAP Measures* section of this MD&A for details on how management estimates its normalized capital expenditures used in the determination of ACFO.

Tenant improvements and external leasing commissions

Our portfolio requires ongoing investments of capital for costs related to tenant improvements, broker commissions on new and renewal tenant leases and other third-party leasing costs. The amount and timing of capital outlays to fund tenant improvements on our income property portfolio depend on several factors, which may include the lease maturity profile, unforeseen tenant bankruptcies and the location of the income property.

Recoverable and non-recoverable capital expenditures

We also invest capital on a regular basis to physically maintain our income properties. Typical costs incurred are for expenditures such as roof replacement programs and the resurfacing of parking lots. Tenant leases generally provide for the ability to recover a significant portion of such costs from tenants over time as property operating costs. We expense or capitalize these amounts to income properties, as appropriate.

The majority of such activities occur when weather conditions are favourable. As a result, these expenditures are generally not consistent throughout the year.

Revenue enhancing capital expenditures

Capital spending for new or existing income properties that is expected to create, improve and/or add to the overall earnings capacity of the property portfolio are considered revenue enhancing. RioCan considers such amounts to be investing activities. As a result, we do not expect such expenditures to be funded from cash flows from operating activities and do not consider such amounts as a key determinant in setting the amount that is distributed to our unitholders. Revenue enhancing capital expenditures are not included in the determination of ACFO.

Summary of capital expenditures

Expenditures for third-party leasing commissions and tenant improvements, recoverable and non-recoverable, and revenue enhancing capital expenditures pertaining to our income properties are as follows:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,		Normalized capital expenditures (i)	
	2017	2016	2017	2016	2017	2018
Maintenance capital expenditures:						
Tenant improvements and external leasing commissions	\$ 4,917	\$ 13,853	\$ 29,089	\$ 33,677	\$ 27,500	\$ 24,000
Recoverable from tenants	5,122	9,287	9,424	18,920	15,000	13,000
Non-recoverable	6,372	1,504	12,440	11,746	10,000	8,000
	\$ 16,411	\$ 24,644	\$ 50,953	\$ 64,343	\$ 52,500	\$ 45,000
Revenue enhancing capital expenditures	3,475	2,313	18,230	11,706		
	\$ 19,886	\$ 26,957	\$ 69,183	\$ 76,049		

(i) Refer to the *Non-GAAP Measures* section in this MD&A for details on how management estimates its normalized capital expenditures.

For the three months ended December 31, 2017, our total capital expenditures on income properties were \$19.9 million compared to \$27.0 million for the same period in 2016. The \$7.1 million decrease was primarily due to accelerated maintenance spending in 2016 on some facilities that lost the Target anchor in order to increase occupancy back to historic levels, partially offset by higher revenue enhancing capital expenditures in Q4 2017.

For the year ended December 31, 2017, our total capital expenditures on income properties were \$69.2 million compared to \$76.0 million for the same period in 2016. The \$6.9 million decrease was primarily due to the net effect of the following:

- \$4.6 million in lower payments for tenant improvements; and
- \$8.8 million in lower recoverable and non-recoverable capital expenditures; partly offset by

MANAGEMENT'S DISCUSSION AND ANALYSIS

- \$6.5 million in higher revenue enhancing expenditures related to RioCan Yonge Eglinton Centre and major interior upgrades underway at some of the Trust's enclosed mall properties.

RioCan's total maintenance capital expenditures for the year ended December 31, 2017 is \$51.0 million, \$1.5 million lower than our normalized capital expenditures of \$52.5 million for the year due to lower spending and timing of maintenance capital expenditures. Refer to the *Non-GAAP Measures* section of this MD&A for details on how estimates of normalized capital expenditures are determined for 2017 and 2018.

Properties Under Development

RioCan's development program is an important component of its long-term growth strategy and is focused on well-located properties in the six major markets in Canada. Often, these are properties that RioCan already owns and are located directly on, or in proximity to, major transit lines such as the existing Toronto Transit Commission's subway lines or the Eglinton LRT line, which is currently under construction. Development properties that the Trust has completed either independently or with co-owners have contributed significantly to our existing growth. The Trust's development program will continue to be a significant value creation driver and will secure diversification and growth of its future cash flows.

Population growth in these six major markets is significant and retailers want locations that are easily accessible to this population. RioCan's properties within its development program will serve that demand and returns on these properties are expected to contribute significantly to our growth strategy over time. To support the aforementioned population growth, cities are building infrastructure and this, in turn, supports RioCan's development growth strategy in the six major markets in Canada. Development opportunities arise from the fact that retail centres are generally built with lot coverages of approximately 25% of the underlying lands and municipalities are supporting additional density particularly near major infrastructure investments. Considering that RioCan already owns the land for its portfolio of mixed-use redevelopment opportunities, these projects are expected to generate strong returns and increase the Trust's net asset value.

The Trust strategically manages its development risks. It undertakes developments selectively based on opportunities in its portfolio and within the markets it focuses on. Development projects must be able to generate appropriate risk-adjusted returns, and the Trust will not commence construction until it has secured the requisite leasing commitments pertaining to the commercial portion of the mixed-use development. In the case of mixed-use projects with a significant residential component, construction of the rental residential component will commence without pre-leasing, as residential rental units are typically not pre-leased before construction start. Construction will only commence with appropriate risk-adjusted returns based on a strong understanding of the rental market in the area which is based on third party studies relating to comparable properties in the area. RioCan will also seek to undertake major developments with established developers. Furthermore, RioCan uses a staggered approach in its development program to avoid unnecessary concentration of development projects in a single period of time to allocate risk exposure and manage the Trust's capital and personnel resources. The Trust's mixed-use residential development will also allow the Trust to access Canadian Mortgage and Housing Corporation (CMHC) insured mortgages, which will further diversify the Trust's funding sources and offer an attractive cost of debt.

The Trust categorizes the projects within its development program as follows:

Category	Description
Greenfield Development	Projects on vacant land typically located in suburban markets that are being constructed or developed from the ground-up for future use as income producing properties (IPP or IPPs).
Urban Intensification	Projects at existing IPPs located in urban markets, which typically involve increasing the density or square footage of the properties and are often mixed-use projects.
Expansion and Redevelopment	Existing IPPs, or components thereof, that are being repositioned through redevelopment, which typically increases NOI by adding to the rentable area of the properties.

In addition to the above development categories, the Trust also owns vacant lands and other properties that could be used for future developments. Such vacant land and other properties are reported as "Development Lands and Other" under properties under development (PUD) in the *Estimated Project Costs and Development Yield* section of this MD&A.

RioCan's estimated NLA, estimated future development costs and estimated proceeds from disposition as discussed throughout this *Properties Under Development* section of this MD&A are subject to change. Such changes may be material to the Trust, as assumptions are updated regularly based on revised site plans, the cost tendering process and continuing tenant negotiations. These assumptions, among other items, include the following: anchor tenants, estimated NLA and mix among rental, air rights sale, and condominiums/townhouses, the likelihood, timing and amount of future sales of air rights and land dispositions, tenant rents, building sizes, project completion timelines, availability and cost of construction financing and zoning approvals. Although the estimated development expenditures are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these projections and may, therefore, materially differ from management's current estimates.

Management's current estimates and assumptions may change over time depending on market conditions and many other factors. There is no assurance that all of these developments will be undertaken, and if they are, there is no assurance as to the mix of commercial and residential developments, or the costs, or the phasing of the projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Declaration of Trust and Financial Covenants

The provisions of the Trust's Declaration have the effect of limiting direct and indirect investments in greenfield developments and development properties held for resale (each net of related mortgage debt and mezzanine financing to fund co-owners' share of such developments) to no more than 15% of total consolidated unitholders' equity of the Trust, as determined under IFRS. As at December 31, 2017, RioCan's investments in greenfield development and residential inventory as a percentage of consolidated unitholders' equity is 3.3% and, therefore, the Trust is in compliance with this restriction.

In addition, RioCan's revolving unsecured operating line of credit and non-revolving unsecured credit facilities agreements require the Trust to maintain certain financial covenants, one of which includes a more restrictive covenant as it pertains to the Trust's development activities. As of December 31, 2017, the Trust is in compliance with all financial covenants pursuant to the credit facility agreements including the one relating to the Trust's development activities. Refer to note 26 of the 2017 Annual Consolidated Financial Statements for further details.

Development Pipeline

RioCan's development pipeline as at December 31, 2017 is estimated as follows:

(thousands of square feet)	Number of Projects (ii)	Estimated Density (NLA) at RioCan's Interest (i)					
		Total	PUD (iii)	Residential Inventory (iv)	Components of PUD		
					Commercial	Residential Rental	Air Rights Sale
A. Active projects with detailed cost estimates							
Greenfield Development	1	288	288	—	288	—	—
Urban Intensification (v)	12	3,156	2,923	233	1,301	589	1,033
	13	3,444	3,211	233	1,589	589	1,033
Expansion & Redevelopment (vi)	28	901	901	—	772	129	—
Subtotal	41	4,345	4,112	233	2,361	718	1,033
B. Active projects with cost estimates in progress (vii)	16	13,224	12,668	556	3,653	9,015	—
Total Active Projects	57	17,569	16,780	789	6,014	9,733	1,033
C. Future estimated density (viii)	17	8,710	8,508	202	2,108	6,400	—
Total development pipeline	74	26,279	25,288	991	8,122	16,133	1,033

- (i) Estimated density across the various components of the development pipeline is expressed as Net Leasable Area (NLA), which represents approximately 90% of Gross Floor Area (GFA) for residential rental and inventory developments. This conversion factor is an estimate, which is based on a number of assumptions including but not limited to, site plan approval, final building design and floor plans as well as the mix of commercial and residential space in a multi-use development project.
- (ii) Given the range of development activities and the multi-phase nature of the development projects included in the total development pipeline, a single investment property could have more than one project. Therefore, the number of projects shall not be viewed as equivalent to number of properties under development.
- (iii) PUD NLA includes NLA for air right sales in addition to commercial and residential rental NLA, but excludes NLA for condominiums and townhouse projects which are reported separately as Residential Inventory.
- (iv) Represents the density associated with the development of our residential condominiums and townhouse projects, that are to be sold in the normal course of business upon project completion, not to be held for long-term capital appreciation or rental income.
- (v) Urban Intensification projects include approximately 0.1 million square feet that are currently IPP.
- (vi) Expansion and Redevelopment projects include approximately 0.6 million square feet of vacant NLA which was primarily former Sears and Target space prior to its redevelopment, with remaining 0.3 million square feet as incremental NLA.
- (vii) Active projects with cost estimates in progress include approximately 2.5 million square feet that are currently IPP.
- (viii) Future estimated density includes approximately 1.0 million square feet that are currently IPP.

The estimated 26.3 million square feet of development pipeline (at RioCan's interest) as of December 31, 2017 includes commercial space, residential rental held for long-term rental income, condominiums and townhouses for sale, and density associated with air rights sales. This development pipeline is to be developed in multiple phases. Approximately 4.1 million square feet of NLA in the estimated development pipeline is existing NLA which is currently income producing, therefore the net incremental density included in the total development pipeline is estimated at 22.2 million square feet as of December 31, 2017.

The 2.5 million square foot increase in NLA in the total development pipeline when compared to the third quarter of 2017 consists of a 2.2 million square foot increase in projected future estimated density primarily due to the inclusion of all phases of estimated density for the future Shoppers World Brampton development and a 0.3 million square foot increase due to the Trust's acquisition of an additional 10% ownership in the commercial component of The Well project in October 2017, partially offset by the sale of 50% interest in the Dupont Street project in December 2017, and the transfer of certain expansion and redevelopment projects from IPP to PUD, namely space associated with the units formerly occupied by Sears, net of transfers from PUD to IPP upon project completion.

Estimated density for the condominium and townhouse developments sets out RioCan's current intention with respect to what it plans to sell in the ordinary course of business once the projects are completed, rather than to hold on a long term basis for capital appreciation or rental income purposes. As such, the costs associated with this NLA are treated as residential inventory under IFRS and are thus not reported as PUD, even though this NLA forms part of the RioCan's development program and is included in the above estimated development pipeline. Condominium and townhouse developments are discussed under the *Residential Inventory* section of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Under IFRS, costs associated with air rights sales, which include, but are not limited to, the costs of underlying structure and infrastructure required for the closing the air rights sales, are part of the costs of the properties under development. As a result, density related to air rights sales is included as part of the PUD square footage.

Development projects that we have included in this discussion encompass a wide range of development activities, which may be as simple as a pad addition at an existing site to a large Greenfield development project. Given the range of these development activities and multi-phase nature of certain development projects, a single investment property could have more than one project. Therefore, the number of projects shall not be viewed as equivalent to the number of properties under development.

A key milestone of the development process is to obtain the zoning approval. The following table breaks down the Trust's estimated 26.3 million square feet of development pipeline (at RioCan's interest) by zoning status. As of the date of this MD&A, 52 projects or 12.3 million square feet of our development pipeline have zoning approvals, representing approximately 46.7% of total estimated NLA in the Trust's current development pipeline. In addition the Trust has 5 projects or 5.3 million square feet with zoning applications submitted, representing an additional 20.1% of the Trust's current development pipeline as of December 31, 2017.

During Q4 2017, the zoning approval was finalized for The Well and The Well - Residential Building 6 in Toronto. This was the primary reason for the 1.5 million square feet increase in square feet of zoning approved from Q3 2017 to Q4 2017.

(thousands of square feet)	Number of Projects	% of square footage zoned	Estimated Density (NLA) at RioCan's Interest (i)					
			Total	PUD (ii)	Residential Inventory (iii)	Components of PUD		
						Commercial	Residential Rental	Air Rights Sale
Zoning approved	52	46.7%	12,283	11,494	789	5,032	5,429	1,033
Zoning application submitted	5	20.1%	5,286	5,286	—	982	4,304	—
Future estimated density	17	33.2%	8,710	8,508	202	2,108	6,400	—
Total development pipeline	74	100.0%	26,279	25,288	991	8,122	16,133	1,033

- (i) Estimated density across the various components of the development pipeline is expressed as NLA, which represents approximately 90% of GFA for residential rental and inventory developments. This conversion factor is an estimate, which is based on a number of assumptions including but not limited to, site plan approval, final building design and floor plans as well as the mix of commercial and residential space in a multi-use development project.
- (ii) PUD NLA includes NLA for air right sales in addition to commercial and residential rental NLA, but excludes NLA for condominiums and townhouse projects which are reported separately as Residential Inventory.
- (iii) Represents the density associated with the development of our residential condominiums and townhouse projects, that are to be sold in the normal course of business upon project completion, not to be held for long-term capital appreciation or rental income.

Estimated Project Costs and Development Yield

RioCan's share of estimated development costs as of December 31, 2017 are summarized in the following table. This summary includes estimated costs for the 41 active PUD projects with detailed cost estimates (described below), plus the current carrying costs of the development lands and other, net of projected proceeds from dispositions. The 41 active PUD projects with detailed cost estimates represent 4.1 million square feet or 16.3% of RioCan's estimated PUD development pipeline on an NLA basis. The 0.3 million increase in NLA in active projects with detailed cost estimates when compared to the third quarter of 2017 is primarily due to the Trust's acquisition of an additional 10% ownership in the commercial component of The Well project in October 2017, the transfer of certain expansion and redevelopment projects from IPP to PUD, namely space associated with the units formerly occupied by Sears, net of the sale of 50% interest in the Dupont Street project in December 2017 and transfers from PUD to IPP upon project completion.

The total estimated project costs excludes costs relating to condominiums or townhouse developments, which are included in *Residential Inventory* in the consolidated financial statements and in this MD&A.

(thousands of dollars or thousands of square feet)	Number of Projects	At RioCan's Interest					
		Total PUD NLA (i)	Total PUD Estimated Costs	Costs incurred to date			Estimated PUD Costs to Complete
				Completed (IPP)	PUD	Total	
Greenfield Development	1	288	\$ 108,778	\$ 37,314	\$ 42,510	\$ 79,824	\$ 28,954
Urban Intensification	12	2,923	1,457,597	20,460	458,523	478,983	978,614
Expansion & Redevelopment	13	3,211	1,566,375	57,774	501,033	558,807	1,007,568
	28	901	459,875	—	270,048	270,048	189,827
Active projects with detailed cost estimates	41	4,112	\$ 2,026,250	\$ 57,774	\$ 771,081	\$ 828,855	\$ 1,197,395
Development Lands and Other (ii)			297,449		297,449	297,449	—
Projected proceeds from dispositions (iii)			(140,977)			—	(140,977)
Total			\$ 2,182,722	\$ 57,774	\$ 1,068,530	\$ 1,126,304	\$ 1,056,418
PUD Fair Value to Date					\$ 1,123,184		

- (i) Total NLA includes NLA from commercial, residential rental and air rights sales and excludes NLA from residential inventory.
- (ii) Development lands and other includes excess land and other properties that could be used for future developments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(iii) Represents conditional land and air right sales that the Trust will sell instead of holding for long-term income, which management considers as reductions to its overall development expenditures.

Total estimated project costs based on current assumptions for these projects, including the current carrying costs of development lands and other, are \$2.2 billion, net of estimated proceeds from land and air rights dispositions, with \$1.1 billion of costs incurred to date. Total estimated project costs include land acquisition costs, estimated construction costs, interest and other carrying costs, as well as capitalized development staff compensation and other expenses. Phasing of the remaining \$1.1 billion of estimated PUD costs to complete is discussed in the *Project Phasing and NLA Completion* section of this MD&A.

The relatively small \$0.1 million increase in total estimated PUD costs for the development pipeline estimated as of December 31, 2017 when compared to the estimated costs as of September 30, 2017 was primarily due to the acquisition of an additional 10% interest in the commercial component of The Well in October 2017, the transfer from IPP to PUD associated with the former Sears space, partly offset by disposition of 50% interest in Dupont Street, PUD completions and transfers to IPP, and updated costs estimates for a few projects.

The Trust has been funding and will continue to fund its development pipeline through its capital recycling program including net proceeds from its strategic asset sales over the next two to three years as announced in October 2017, the sale of remaining available-for-sale marketable securities, and strategic development partnerships.

The total estimated development costs, which includes the total costs of active projects with detailed cost estimates, development lands and other, net of projected proceeds from dispositions, as at December 31, 2017 are further broken down by committed and non-committed spending as follows:

(thousands of dollars)	At RioCan's Interest				
	Total PUD Estimated Costs	Costs incurred to date			Estimated PUD Costs to Complete
		Completed (IPP)	PUD	Total	
Committed	\$ 1,764,550	\$ 48,789	\$ 764,865	\$ 813,654	\$ 950,896
Non-committed	418,172	8,985	303,665	312,650	105,522
Total	\$ 2,182,722	\$ 57,774	\$ 1,068,530	\$ 1,126,304	\$ 1,056,418

A project is considered to be committed when all major planning issues have been resolved, anchor tenant(s) has/have been secured, and/or construction is about to commence or has commenced. Although a non-committed project may have a completed portion, the Trust is not committed to completing the remaining phase(s) of the project if it so decides in due course. Development Lands and Other are included in non-committed projects. The recent acquisition of the Yorkville property is included in Development Lands and Other and therefore is categorized as non-committed in the table above until such time the project is considered committed based on the above noted criteria.

On an aggregate basis, greenfield development and urban intensification projects (including residential rental development) are currently estimated to generate a weighted average NOI yield of approximately 5% to 6%, although certain properties may be outside either side of this range. This yield is derived from estimated stabilized net operating income following completion of a project over total estimated project costs for the project net of estimated proceeds from dispositions including land and air right sales. However, the actual development yield could differ if total estimated project costs and estimated stabilized net operating income are different from those currently estimated, or if there are other unforeseen circumstances that cause actual results to differ from assumptions.

Project Phasing and NLA Completion

As at December 31, 2017, the 41 active development projects with detailed costs estimates are currently expected to be completed as follows in terms of NLA completion:

(thousands of square feet)	Estimated PUD NLA - At RioCan's Interest						
	Total	Completed (IPP) (i)	PUD (ii)	2018	2019	2020	2021+
Greenfield Development	288	136	152	18	26	5	103
Urban Intensification	2,923	63	2,861	313	377	1,168	1,003
	3,211	199	3,013	331	403	1,173	1,106
Expansion & Redevelopment	901	—	901	362	410	129	—
Active projects with detailed cost estimates	4,112	199	3,914	693	813	1,302	1,106
Greenfield Development and Urban Intensification Only:							
% of completion by year	100.0%	6.2%		10.3%	12.5%	36.6%	34.4%
Cumulative % of completion by year		6.2%		16.5%	29.0%	65.6%	100.0%

(i) Represents the portion of the development pipeline where tenants have taken possession and is included in income producing properties.

(ii) Represents the remaining portion of the NLA that is yet to be completed for the 41 active projects with detailed cost estimates as of December 31, 2017, including NLA for air right sales, and includes 0.6 million square feet of vacant NLA which is primarily former Sears and Target space prior to its redevelopment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As noted in an earlier section of this MD&A, estimates of NLA completion by year are subject to various factors which may or may not be within management's control. Estimates for the NLA to be completed decreased for 2018 while increased for 2019 when compared to such estimates as of September 30, 2017, primarily as a result of timeline changes as the Trust rebalances the staggering of projects and the inclusion of space formerly occupied by Sears, the redevelopment of which is estimated to be substantially completed in 2019.

Annual costs for active PUD projects with detailed cost estimates are estimated in the \$250 million to \$300 million range over the next two years. Together with the estimated \$50 million to \$100 million annual costs on residential inventory as noted in the *Residential Inventory* section of this MD&A, total annual development costs are estimated in the \$300 million to \$400 million range over the next two years. These estimates reflect management's estimates as of December 31, 2017 and are subject to changes due to potential changes in various underlying factors as noted earlier in this MD&A.

Approximately 362,000 square feet at RioCan's interest of Expansion and Redevelopment projects are expected to be completed during 2018. Of the 362,000 square feet, 185,000 square feet have committed leases and is expected to generate an annualized net incremental IFRS rent revenue of \$3.0 million, which is already included in the \$9.0 million net incremental IFRS rent revenue as disclosed under the *In-place Occupancy* section of this MD&A.

Mixed-Use Residential Development

Despite the rent control legislation introduced by the Government of Ontario in May 2017 which extends rent control to all residential rental units regardless of when constructed, RioCan remains committed to its rental residential development program while we assess the impact on individual projects and observe the broader market reactions.

RioCan targets to develop approximately 10,000 rental residential units over the next decade. However, given the early stage of the evolution of this strategy, there can be no assurance that all of these developments will be undertaken, and if they are, there is no assurance as to the mix of commercial, residential rental and condominium residential developments, or the costs, or the phasing of the projects.

RioCan has currently identified a number of properties that it considers to be strong possible intensification opportunities, all of which are in the six major markets in which it operates and are typically located in the vicinity of existing or planned substantive transit infrastructure. These properties are in various stages of development. The following table provides a summary of our mixed-use residential development program, which accounts for 95.6% of our overall estimated 26.3 million square feet of development pipeline as discussed earlier in this section of the MD&A. To further clarify, this summary does not include Greenfield and Urban Intensification projects that have commercial components only.

MANAGEMENT'S DISCUSSION AND ANALYSIS

				Estimated Density (NLA) at RioCan's Interest (i)					
				PUD Components					
(thousands of square feet)	Locations	RioCan Ownership % (Partner)	Total NLA at 100%	Total	PUD (ii)	Residential Inventory (iii)	Commercial	Residential Rental	Air Rights Sale
A. Active mixed-use residential projects with detailed cost estimates (vi)									
Urban Intensification									
Brentwood Village -Residential (iv)	Calgary, AB	50% (Boardwalk)	145	72	72	—	5	67	—
Dupont Street (iv)	Toronto, ON	50% (Woodbourne)	181	90	90	—	16	74	—
Fifth and Third East Village (iv)	Calgary, AB	100%	755	755	755	—	158	—	597
Gloucester -Residential (iv)	Gloucester, ON	50% (Killam)	185	93	93	—	3	90	—
King-Portland Centre (iv)	Toronto, ON	50% (Allied)	425	213	166	47	166	—	—
Yonge Eglinton Northeast Corner (iv)	Toronto, ON	50% (Metropia / Bazis)	707	354	168	186	22	146	—
The Well (iv)	Toronto, ON	50% commercial (Allied) 40% residential (Allied / Diamond)	2,563	1,173	1,173	—	737	—	436
College & Manning (iv)	Toronto, ON	50% (Allied)	113	56	56	—	32	24	—
The Well -Residential Bldg 6 (iv)	Toronto, ON	50% (Woodbourne)	375	188	188	—	—	188	—
			5,449	2,994	2,761	233	1,139	589	1,033
Expansion and Redevelopment									
Yonge Sheppard Centre (iv) (v)	Toronto, ON	50% (KingSett)	412	206	206	—	77	129	—
			5,861	3,200	2,967	233	1,216	718	1,033
B. Active mixed-use residential projects with cost estimates in progress (vii)									
Approved Zoning									
Sunnybrook Plaza (iv)	Toronto, ON	50% (Concert)	316	158	158	—	22	136	—
Clarkson Village (iv)	Mississauga, ON	100%	418	418	418	—	35	383	—
Gloucester -Residential phase II (iv)	Gloucester, ON	50% (Killam)	472	236	236	—	9	227	—
Brentwood Village -Residential phase II (iv)	Calgary, AB	100%	955	955	955	—	435	520	—
Millwoods (iv)	Edmonton, AB	40% (Bayfield)	2,010	804	804	—	300	504	—
Tillicum (iv)	Victoria, BC	100%	727	727	727	—	479	248	—
Westgate (iv)	Ottawa, ON	100%	744	744	744	—	96	648	—
Southland (iv)	Calgary, AB	100%	972	972	972	—	191	781	—
Windfields Farm (iv)	Oshawa, ON	100% of commercial, 50% of residential (Tribute)	1,931	1,375	819	556	819	—	—
Markington (iv)	Toronto, ON	100%	977	977	977	—	163	814	—
Elmvale (iv)	Ottawa, ON	100%	572	572	572	—	122	450	—
			10,094	7,938	7,382	556	2,671	4,711	—
Zoning applications submitted									
Queensway	Toronto, ON	50% (Talisker)	614	307	307	—	64	243	—
RioCan Grand Park	Mississauga, ON	100%	330	330	330	—	120	210	—
Dufferin Plaza	Toronto, ON	100%	582	582	582	—	61	521	—
RioCan Scarborough Centre	Toronto, ON	100%	2,760	2,760	2,760	—	600	2,160	—
RioCan Leaside Centre	Toronto, ON	100%	1,307	1,307	1,307	—	137	1,170	—
			5,593	5,286	5,286	—	982	4,304	—
			15,687	13,224	12,668	556	3,653	9,015	—
Total active mixed-use residential projects with cost estimates in progress - 16 projects (vii)									
			21,548	16,424	15,635	789	4,869	9,733	1,033
C. Future estimated density - 17 projects (viii), (ix)									
			9,329	8,710	8,508	202	2,108	6,400	—
Total mixed-use residential developments - 43 projects			30,877	25,134	24,143	991	6,977	16,133	1,033
Mixed-use residential developments as a percentage of total development pipeline				95.6%	95.5%	100.0%	85.9%	100.0%	100.0%

- (i) Estimated density across the various components of the development pipeline is expressed as NLA, which represents approximately 90% of GFA for residential rental and inventory developments. This conversion factor is an estimate, which is based on a number of assumptions including but not limited to, site plan approval, final building design and floor plans as well as the mix of commercial and residential space in a multi-use development project.
- (ii) PUD NLA includes NLA for air right sales in addition to commercial and residential rental NLA, but excludes NLA for condominiums and townhouse projects which are reported separately as Residential Inventory.
- (iii) Represents the density associated with the development of residential condominiums and townhouse projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- (iv) As at the date of this MD&A, RioCan has obtained final zoning approvals for the development of these properties. The above table includes only mixed-use residential development projects and thus does not include Greenfield Development and Expansion and Redevelopment projects that do not have residential components. As a result, the Trust has more projects with zoning approvals than what is included in this table.
- (v) Commercial square footage at Yonge Sheppard Centre represents the redevelopment of the existing enclosed mall retail space, which is all incremental.
- (vi) Active mixed-use residential projects with detailed cost estimates include approximately 0.1 million square feet that are currently IPP.
- (vii) Active mixed-use projects with cost estimates in progress include approximately 2.5 million square feet that are currently IPP.
- (viii) Future estimated density includes approximately 1.0 million square feet that is currently IPP.
- (ix) Includes the Yorkville property development site acquired in Q3 2017, which is expected to be developed into 0.5 million (at 100%) square feet of mixed-use residential and retail space.

Out of the 26.3 million square feet of the Trust's estimated development pipeline, mixed-use residential projects account for approximately 95.6% of its estimated development pipeline (RioCan's interest). This consists of 43 projects with currently estimated 25.1 million square feet of NLA, consisting of 7.0 million square feet of commercial NLA and 18.2 million square feet of residential NLA, including residential rental, air right sales, and condominium or townhouse developments. Out of the 25.1 million square feet (RioCan's interest) of residential development pipeline, approximately 3.5 million square feet of commercial NLA is currently income producing.

Residential rental units and air rights sales (17.2 million square feet at RioCan's interest) account for 65.3% of the Trust's total development pipeline of 26.3 million square feet as of December 31, 2017.

Out of the 43 identified mixed-use residential projects, RioCan has 26 projects that are currently active, out of which 21 projects have zoning approvals and 5 projects are currently under zoning application.

If all planning applications pertaining to the 5 projects currently under zoning application are approved, the 26 active mixed-use residential development projects are expected to generate a total of approximately 21.5 million square feet of NLA at 100% share. At RioCan's interests, these 26 active mixed-use residential developments are estimated to generate 16.4 million square feet of NLA including, 4.9 million square feet of commercial NLA and 11.6 million square feet of residential NLA, including residential rental and air rights sales.

In addition to the 26 active residential development projects, RioCan has also identified sites with future density which have the potential of contributing an additional 8.7 million square feet of NLA at RioCan's share, consisting of 2.1 million square feet of commercial NLA and 6.6 million square feet of residential NLA. The 2.2 million increase in the estimated future density from Q3 2017 to Q4 2017 is primarily due to inclusion of all phases of future estimated density for our Shoppers World Brampton property in the GTA while balancing the number of projects included in this estimate. Except for 1.0 million square feet that is currently income producing, the remaining 7.7 million square feet is the estimated incremental density.

Overall, out of the 25.1 million square feet (RioCan's share) of mixed-use residential development, 11.1 million square feet or 44.3% currently have zoning approvals, 5.3 million square feet or 21% currently have zoning applications submitted.

Properties under Development Continuity

The change in the IFRS consolidated net carrying amount is as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Balance, beginning of year	\$ 1,039,775	\$ 891,029	\$ 915,508	\$ 872,202
Acquisitions	25,425	319	63,933	10,043
Dispositions	(52,904)	(700)	(88,127)	(5,436)
Development expenditures	95,261	78,689	324,596	243,243
Transfers PUD to IPP - cost	(53,730)	(54,418)	(224,311)	(264,832)
Transfers PUD to IPP - fair value	5,992	(2,557)	4,240	(9,308)
Transfers IPP to PUD	51,424	142	112,473	21,019
Transfers to residential inventory	(3,102)	—	(16,174)	—
Fair value gains, net	15,043	3,004	27,437	48,196
Earn-out consideration	—	—	3,609	—
Other	—	—	—	381
Balance, end of year	\$ 1,123,184	\$ 915,508	\$ 1,123,184	\$ 915,508

Development Property Acquisitions

During the fourth quarter of 2017, the Trust completed two development property acquisitions aggregating \$25.4 million at RioCan's interest. During the year ended December 31, 2017, the Trust completed six development property acquisitions aggregating \$63.9 million at RioCan's interest. Notable transactions that occurred during the year ended December 31, 2017 include:

MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Yorkville** - During Q3 2017, RioCan acquired a 75% ownership interest in properties located in the prestigious Yorkville area of Toronto, Ontario. The total consideration of these properties, including transaction costs was \$67.5 million, which was paid by \$35.9 million in cash, \$28.5 million repayment of a loan receivable, and \$3.1 million assumption of debt. After the sale of a 25% interest in the project by RioCan on October 12, 2017 to Capital Developments (CD) at a sale price of \$21.7 million, including certain cost recoveries, RioCan owns a 50% ownership interest in the properties at a total consideration of \$45.8 million including transaction costs, which consists of \$36.9 million as residential inventory and \$8.9 million classified as properties under development. Subsequent to December 31, 2017, the partners acquired three other adjacent properties for this development at an aggregate purchase price, including transaction costs, of \$31.1 million (at RioCan's 50% interest).

The partners are in the early stages of creating plans to redevelop the site, which has the potential for approximately half a million square feet of luxury condominiums, retail uses and up to 82 residential rental replacement units. RioCan has agreed to purchase the partners' interest in the retail portion upon project completion at a 6% capitalization rate and has the right of first opportunity to acquire the residential rental replacement units.

- **Yonge Eglinton Northeast Corner** - On July 5, 2017, RioCan entered into an agreement with its partners to purchase the remaining 50% interest in the rental residential tower of the landmark, mixed-use, transit oriented project at the northeast corner of Yonge Street and Eglinton Avenue, also known as ePlace. The purchase price is estimated in the range of \$95 to \$105 million upon closing, which is expected to occur in the first quarter of 2019, subject to final cost adjustments. Upon closing, the project will add 466 rental units, including 65 residential rental replacement units, to the Trust's residential portfolio.

RioCan also has an agreement to acquire the remaining 50% interest in the retail component of the ePlace at a purchase price based on a 7% capitalization rate and the stabilized net operating income upon completion in 2019.

- **The Well** - On October 5, 2017, RioCan and its co-owner Allied acquired WNUF 2 undivided 20% interest in the commercial component of The Well for a purchase price, including transaction costs, of \$46.1 million (\$23.0 million at RioCan's additional 10% interest). As a result of this transaction, both Allied and RioCan each own an undivided 50% interest in the commercial component and will pursue the construction and ultimate operation of the commercial component as equal partners.
- **E2 Condos at Yonge & Eglinton** - On December 11, 2017 RioCan acquired a 10% interest in E2 Condos, a development adjacent to RioCan's residential rental project at the northeast corner of Yonge and Eglinton. RioCan will invest a total of \$3.0 million and will participate in project profits and earn fees for easement rights. During Q4 2017, RioCan contributed \$1.4 million of capital to the project. This investment is accounted for as other assets under IFRS in our consolidated balance sheet and therefore, is not included in either Property Under Development or Residential Inventory on the Trust's consolidated balance sheet.

In addition to above noted acquisitions, the Trust also completed the acquisition of one development property in Q1 2017 for \$5.4 million, two parkland parcels in Q3 2017 for a total purchase price of \$2.5 million, and acquisition of the former Sears space at Garden City Mall in Winnipeg, Manitoba for \$2.4 million (at RioCan's 30% interest).

Development Property Dispositions

During the year ended December 31, 2017, we completed nine development property dispositions aggregating \$88.1 million at our interest, as noted below. During the three months ended December 31, 2017, RioCan completed seven development property dispositions aggregating \$52.9 million at RioCan's interest.

- **Gloucester Residential** - On April 21, 2017, Killam and RioCan formed a 50/50 joint venture to develop a rental residential community on a 7.1 acre site, also known as Frontier, located at Gloucester City Centre on the new Confederation LRT in Ottawa, Ontario. The zoning is approved for a total of four residential towers containing up to 840 units (at 100%), with the first phase consisting of a 23-storey tower containing approximately 222 units (at 100%). The first phase of project is currently under construction and is estimated to be completed in 2019. This leading edge development will maximize efficiencies with the incorporation of a geothermal energy system for the building's heating and cooling. Killam acquired its interest for \$9.0 million (50% interest) including certain cost recoveries.
- **Sunnybrook Plaza** - On June 14, 2017, RioCan formed a 50/50 joint venture with Concert to redevelop the Sunnybrook Plaza property located on the new Eglinton LRT in Toronto, Ontario, into a 16-storey and an 11-storey mixed-use project. Concert acquired its interest for \$26.2 million (50% interest).
- **Yorkville** - As discussed above, RioCan disposed of a 25% interest in the project to CD at a sale price of \$21.7 million on October 12, 2017, including certain cost recoveries.
- **Windfield Townhouse Development** - On October 27, 2017, RioCan completed the sale of a 50% interest in an approximately 31 acre land parcel of RioCan's Windfields Farm development property to Tribute for a total sales price of \$3.1 million (50% interest). The land price in this transaction was low because Tribute is the exclusive party that can remove the existing restrictions for townhouse development. The co-owners plan to develop 551 townhouses on the land in several phases. 166 of the 170 units released in phase one and 14 of the 94 units in phase two have been sold. Servicing and roadwork construction began in the third quarter of 2017 and building construction is projected to commence in 2018.
- **Brentwood Village** - On November 23, 2017, RioCan completed the sale of a 50% interest in a discrete portion of its Brentwood Village property in Calgary, Alberta to Boardwalk for total proceeds, including certain cost recoveries, of \$4.8 million (50% interest). The co-owners plan to develop this discrete portion of the property into a mixed-use project with

MANAGEMENT'S DISCUSSION AND ANALYSIS

163 residential rental units plus retail space. RioCan continues to own 100% of the main portion of the property including existing retail and future density.

- **Dupont Street** - On December 15, 2017, RioCan completed the sale of a 50% interest in its 740 Dupont Avenue mixed-use development project in Toronto, Ontario to Woodbourne for total proceeds, including certain cost recoveries, of \$9.4 million (50% interest). The mixed-use project will consist of 210 residential rental units plus retail space. Woodbourne is also the Trust's partner on the Trust's largest 584-unit residential development project - Building 6 at The Well in downtown Toronto.
- **Excess land** - RioCan also completed the sale of three parcels of excess land for total sale proceeds of \$13.9 million.

Transfers to Residential Inventory

During the year ended December 31, 2017, RioCan announced changing the residential rental component of the King Portland Centre to condominium units. In addition, the costs associated with the Windfields Farm residential development were transferred to residential inventory upon formation of the joint venture with Tribute to develop townhomes.

Completed Developments in 2017

During the three months and year ended December 31, 2017, RioCan transferred \$53.7 million and \$224.3 million, respectively, in costs to income producing properties pertaining to 117,000 and 849,000, respectively, square feet of completed greenfield development and expansion and redevelopment projects.

A summary of RioCan's NLA completed during the period is as follows:

(thousands of square feet, unless otherwise noted)	RioCan's % ownership	NLA at RioCan's Interest					Tenants
		Total NLA	2017				
Property location			Q4	Q3	Q2	Q1	
Greenfield Developments							
East Hills, Calgary, AB	40%	3	—	—	—	3	Smitty's
		3	—	—	—	3	
Expansion and Redevelopment							
Brentwood Village, Calgary, AB	100%	4	4	—	—	—	Titan's Vault Games
Burlington Mall, Burlington, ON	50%	24	24	—	—	—	Denninger's, Indigo, Real Fruit Bubble Tea
Charlottetown Mall, Charlottetown, PEI	100%	26	—	—	—	26	SportChek
Corbett Centre, Fredericton, NB	100%	21	—	7	—	14	NB Liquour
Desserte Ouest, Laval, QC	100%	94	—	—	94	—	JYSK, Gold's Gym, Staples
Empress Walk, Toronto, ON	100%	14	14	—	—	—	Pet Smart
Flamborough Power Centre, Hamilton, ON	100%	40	—	—	40	—	Treasure Hunt
Gates of Fergus, Fergus, ON	100%	9	—	9	—	—	Mark's Warehouse
Grant Crossing, Ottawa, ON	80%	5	—	—	—	5	Shoe Company
Herongate Mall, Ottawa, ON	75%	33	—	10	—	23	GoodLife Fitness
Millcroft Shopping Centre, Burlington, ON	50%	50	35	—	15	—	Value Village, Movati Fitness
Parkland Mall, Yorkton, SK	100%	21	—	—	—	21	Winners
Place Greenfield Park, GP, QC	100%	55	—	5	50	—	JYSK, Giant Tiger
Riocan Durham Centre, Ajax, ON	100%	69	20	43	6	—	Michaels, PetSmart, Structube, DSW
RioCan West Ridge, Orillia, ON	100%	7	—	—	7	—	Sports Medicine
Sage Hill Crossing, Calgary, AB	50%	28	—	3	20	5	Dollarama, Sally Beauty, Subway, 9-Round Fitness, Great Canadian Pizza
Shoppers City East, Ottawa, ON	63%	4	—	—	—	4	Tim Horton's, Pita Pit, A&W
Shoppers World Brampton, Brampton, ON	100%	111	—	111	—	—	GoodLife Fitness, Staples, JYSK, Giant Tiger
South Hamilton Square, Hamilton, ON	100%	32	—	—	—	32	JYSK
Stratford Centre, Stratford, ON	100%	42	—	17	—	25	Michaels, Value Village
The Stockyards, Toronto, ON	50%	77	—	—	—	77	Nations
Tanger Outlets Ottawa, Ottawa, ON	50%	12	—	—	—	12	Marshalls
Trinity Common Brampton, Brampton, ON	100%	68	20	48	—	—	Michaels, Winners, DSW
Total development completion		849	117	253	232	247	

Greenfield Development

During 2017, the Sage Hill project was substantially completed and transferred into income producing property. The project is a 380,000 square foot new format centre located in a growing residential suburb in northwest Calgary, co-owned with KingSett on a 50/50 basis. The 32 acre development site is anchored by Walmart and Calgary's first Loblaws City Market banner, with an

MANAGEMENT'S DISCUSSION AND ANALYSIS

excellent mix of strong national (London Drugs, Dollarama, Scotiabank, McDonalds, Royal Bank of Canada) and high quality regional retailers.

As at December 31, 2017, RioCan currently has one greenfield development project with a detailed cost estimate. This project is expected to add approximately 288,000 square feet of NLA at RioCan's interest upon completion. Of this amount, 136,000 square feet at RioCan's interest has been completed as at December 31, 2017 and is already income producing.

		At RioCan's Interest									
(thousands of dollars or thousands of square feet)	RioCan's % ownership	Total PUD NLA upon project completion			Total Estimated PUD Costs	Costs incurred to date			Estimated PUD Costs to Complete	% commercial leased (i)	Anticipated Date of Development Completion
		Completed	PUD	Total		Completed	PUD	Total			
East Hills, Calgary, AB	40%	136	152	288	\$ 108,778	\$ 37,314	\$ 42,510	\$ 79,824	\$ 28,954	55%	2021
PUD Fair Value to date							\$ 46,596				

(i) Leasing activity includes leasing that is conditional on receiving municipal approvals and meeting construction deadlines. The percentage of commercial leasing activity is as at February 13, 2018.

During Q4 2017, the Trust reclassified approximately \$17.0 million of the PUD costs to date for this project to the Development and Other category as the costs are related to vacant land that the Trust does not plan to develop in the near future. As a result, total estimated PUD costs and costs to complete were also adjusted downward.

For East Hills, approximately 160,000 square feet of NLA has committed leases in-place, which includes tenants that have taken possession of the space, at a weighted average net rent rate of approximately \$18.58 per square foot.

Urban Intensification

A focus within our development growth strategy is urban intensification, which is another name for our residential or mixed-use development program. The Trust currently has 12 active urban intensification projects with detailed cost estimates that will generate approximately 2.9 million square feet of NLA at RioCan's interest of space upon completion over the next six years, including air rights that have been or are expected to be sold. Excluding such air rights, these 12 active urban intensification projects are expected to generate approximately 1.8 million square feet of estimated NLA. Our urban intensification program currently is focused on properties located in densely populated areas in the urban cores of Toronto, Ottawa and Calgary.

A summary of our urban intensification projects with detailed cost estimates as at December 31, 2017 is as follows:

		At RioCan's Interest									
(thousands of dollars or thousands of square feet)	RioCan's % ownership	Total PUD NLA upon project completion			Total Estimated PUD Costs	Costs incurred to date			Estimated PUD Costs to Complete	% commercial leased (i)	Anticipated Date of Development Completion
		Completed	PUD	Total		Completed	PUD	Total			
491 College Street, Toronto, ON (v)	50%	—	12	12	\$ 11,970	\$ —	\$ 10,751	\$ 10,751	\$ 1,219	63%	2018
Bathurst College Centre, Toronto, ON (v)	100%	—	139	139	107,433	—	79,730	79,730	27,703	79%	2019
Brentwood Village - Residential, Calgary, AB (v)	50%	—	72	72	38,632	—	5,503	5,503	33,129	—%	2020
Dupont Street, Toronto, ON (v)	50%	—	90	90	70,221	—	9,710	9,710	60,511	13%	2021
Fifth and Third East Village, Calgary, AB (v)	100%	—	755	755	134,433	—	57,554	57,554	76,879	70%	2021
Gloucester - Residential, Ottawa, ON (v)	50%	3	90	93	41,910	226	17,438	17,664	24,246	100%	2019
King-Portland Centre, Toronto, ON (v)	50%	31	135	166	82,355	11,249	42,631	53,880	28,475	94%	2018 & 2019
642 King Street West, Toronto, ON (v)	50%	—	13	13	17,704	—	14,834	14,834	2,870	39%	2018
The Well, Toronto, ON (iv), (v)	'50% of commercial ; 40% of residential air rights	—	1,173	1,173	675,208	—	140,008	140,008	535,200	—%	2021
Yonge Eglinton Northeast Corner, Toronto, ON (v)	50%	—	167	167	117,994	—	74,147	74,147	43,847	31%	2018 & 2019
College & Manning, Toronto, ON	50%	29	27	56	30,561	8,985	5,763	14,748	15,813	79%	2021
The Well -Residential Bldg 6, Toronto, ON(iii)	50%	—	188	188	129,176	—	454	454	128,722	—%	2022+
Total Estimated PUD Costs (ii)		63	2,861	2,923	\$ 1,457,597	\$ 20,460	\$458,523	\$478,983	\$ 978,614		
PUD Fair Value to date							\$577,457				

MANAGEMENT'S DISCUSSION AND ANALYSIS

- (i) Leasing activity includes leasing that is conditional on receiving municipal approvals and meeting construction deadlines. Leasing shown in this table is calculated as a percentage of commercial square footage only as there is no pre-leasing for residential rental square footage. The percentage of commercial leasing activity is as at February 13, 2018.
- (ii) Total Estimated PUD Costs exclude fair value gains of \$118.9 million.
- (iii) This development project has not yet commenced construction, therefore, costs incurred to date have not been substantial.
- (iv) Total estimated PUD costs for The Well do not include approximately \$72.1 million (at RioCan's interest) of estimated proceeds from air rights dispositions. Net of these estimated proceeds from dispositions, total estimated PUD costs for The Well (at RioCan's interest) would be \$603.1 million.
- (v) These projects are committed, representing projects where all planning issues have been resolved, anchor tenant(s) has or have been secured, and/or construction is about to commence or has commenced.

As of the release date of this MD&A, approximately 364,000 square feet of the above urban intensification NLA under development has committed or in-place leases, which includes tenants that have taken possession of the space, at a weighted average net rent rate of approximately \$29.98 per square foot.

The increase in total estimated PUD costs when compared to the third quarter of 2017 results primarily from the acquisition of an additional 10% interest in the commercial component of The Well in October 2017, partly offset by disposition of a 50% interest in Dupont Street in December 2017 and updates to costs estimates for certain projects.

Expansion & Redevelopment

As at December 31, 2017, RioCan's expansion and redevelopment pipeline will, upon completion, comprise approximately 0.9 million square feet of NLA at RioCan's ownership interest. Approximately 0.6 million square feet of NLA is not incremental as it represents primarily vacant former Sears and Target space prior to its redevelopment. The 0.2 million increase in NLA during the three months ended December 31, 2017 was primarily due to the transfer of certain projects from IPP to PUD, namely space associated with the units formerly occupied by Sears, net of transfers from PUD to IPP upon project completion.

A summary of RioCan's expansion and redevelopment projects as at December 31, 2017 is as follows:

(thousands of dollars or thousands of square feet)	RioCan's % Ownership	Total PUD NLA upon project completion	Total Estimated PUD Costs	At RioCan's interest			Estimated PUD Cost to Complete
				Costs incurred to date			
				Costs incurred to date	Historical IPP Costs (iii)	Total	
Brentwood Village, Calgary, AB (iv)	100%	10	\$ 3,952	\$ 14	\$ 2,618	\$ 2,632	\$ 1,320
Burlington Mall, Burlington, ON	50%	23	20,915	8,051	11,100	19,151	1,764
Empress Walk, Toronto, ON	100%	11	3,426	935	2,000	2,935	491
Northgate Village SC, Calgary, AB	100%	7	4,857	14	2,100	2,114	2,743
Place Super Carnaval Laval, Laval, QC	100%	16	3,673	1,581	818	2,399	1,274
RioCan Meadows, Edmonton, AB	100%	15	7,732	1,059	3,760	4,819	2,913
Sage Hill, Calgary, AB	50%	4	2,099	58	328	386	1,713
Tanger Outlets - Kanata, Kanata, ON	50%	19	11,238	3,707	3,761	7,468	3,770
The Stockyards, Toronto, ON	50%	10	7,452	606	6,700	7,306	146
Yonge Sheppard Centre, Toronto, ON	50%	206	250,850	104,980	26,817	131,797	119,053
1208 1216 Dundas Street East, Whitby ON	100%	7	5,170	27	1,551	1,578	3,592
RioCan Centre Victoria, Whitby, ON	50%	44	7,874	1,619	6,176	7,795	79
Properties with former Target units (ii) - 6 projects		148	48,416	6,965	21,999	28,964	19,452
Properties with former Sears units (ii) - 10 projects		381	82,221	4,142	46,562	50,704	31,517
Total Estimated PUD Costs (i)		901	\$ 459,875	\$ 133,758	\$ 136,290	\$ 270,048	\$ 189,827
PUD Fair Value to date						\$ 223,309	

- (i) Total estimated PUD costs include carrying amounts transferred from IPP for redevelopment and exclude historical fair value losses of \$46.7 million.
- (ii) RioCan transferred carrying value associated with the spaces formerly occupied by Sears and Target from IPP to PUD. The estimated PUD costs to complete are based upon various scenarios with the objective of developing these assets, such that RioCan can attract new tenants, achieve higher rents and improve the overall shopping centre.
- (iii) Historical costs were costs of IPP prior to the transfer to PUD.
- (iv) Represents the commercial redevelopment project only, refer to *Urban Intensification* section of this MD&A for the residential component.

Residential Inventory

Residential inventory are properties acquired or developed for which RioCan intends to dispose of all or part of such properties in the ordinary course of business, rather than to hold on a long term basis for capital appreciation or for rental income purposes. It is expected that the Trust will earn a return on these assets through a combination of property operating income earned during the relatively short holding period, which will be included in net income and sales proceeds.

Transfers of investment properties into residential inventory are based on a change in use evidenced by management's strategic intent, together with the commencement of development activities with a view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 31, 2017, the costs of residential inventory include the costs incurred on the following four condominium or townhouse projects:

- **Yonge Eglinton Northeast Corner (ePlace)** - The 623-unit, fully pre-sold condominium project with Metropia and Bazis Inc. is expected to be completed by the end of 2018 or Q1 2019.
- **King & Portland (Kingly)** - This is a 134-unit condominium project at the northwest corner of King Street West and Portland Street in Toronto's trendy downtown neighbourhood of King West. RioCan and its 50/50 partner Allied announced a change to the residential rental component of the project as originally contemplated, to condominium units in September 2017. The partners subsequently fully pre-sold the condominium units with profitability of the project exceeding initial expectations.
- **Yorkville** - This is a 50/25/25 joint venture project among RioCan, Metropia and CD in the prestigious Toronto neighborhood of Yorkville. As of February 13, 2018, the partners have completed acquisitions of adjacent properties substantially required for the intensification project. The partners are in the early stages of creating plans to redevelop the site, which has the potential for approximately half a million square feet of luxury condominiums, retail uses and up to 82 residential rental replacement units.
- **Windfield Townhouses** - On October 27, 2017 RioCan and Tribute formed a joint venture to develop the Windfields Farm 31-acre site located in Oshawa, Ontario also known as UC Towns 2. The 551 condominium townhouse project will be constructed in three phases. 166 of the 170 units released in phase one and 14 of the 94 units in phase two have been sold. Grading, servicing and roadwork construction began in the third quarter of 2017. Subdivision plan approval was received in Q4 2017. Building construction is expected to commence in 2018.

Refer to *Development Property Acquisitions and Dispositions* sections of this MD&A for more details on these projects. The following table shows the year to date changes in the aggregate carrying value of RioCan's residential inventory:

Year ended December 31,	2017		2016	
Balance, beginning of year	\$	48,414	\$	45,276
Acquisitions (i)		36,870		—
Development expenditures		30,545		3,138
Transfers from investment properties (ii)		16,174		—
Balance, end of year	\$	132,003	\$	48,414

(i) Represents the carrying value of properties acquired located in the Yorkville area of Toronto, Ontario, with the intention of rezoning and developing a high-rise residential condominium building. Refer to the *Development Property Acquisitions* section above of this MD&A for further details.

(ii) During the year ended December 31, 2017, RioCan announced changing the residential rental component of the King Portland Centre to condominium units. In addition, the costs associated with the Windfields Farm residential development were transferred to residential inventory upon formation of the joint venture with Tribute to develop townhomes.

Refer to the *Mixed-Use Residential Development* section of this MD&A for a summary of the Residential Inventory as currently planned.

Annual costs for residential inventory are estimated in the \$50 million to \$100 million range over the next two years. Together with the \$250 million to \$300 million annual costs of PUD projects as noted under *Project Phasing and NLA Completion* section of this MD&A, total annual development costs are estimated to be in the \$300 million to \$400 million range over the next two years. These annual costs estimates are management's estimates as of December 31, 2017 and are subject to changes due to potential changes in various underlying factors as noted earlier in this MD&A.

Mortgages and Loans Receivable

Contractual mortgages and loans receivable as at December 31, 2017 and December 31, 2016 are comprised of the following:

(thousands of dollars)	Contractual rates		Weighted Average Rate	December 31, 2017	December 31, 2016
	Low	High			
Mezzanine financing to co-owners	—%	7.2%	5.5%	\$ 126,868	\$ 107,745
Vendor-take-back and other	4.0%	5.0%	4.7%	19,005	10,272
Total	—%	7.2%	5.4%	\$ 145,873	\$ 118,017

Prior to maturity, any payments on these mortgages and loans receivable from co-owners are made from the cash flows generated from operations and capital transactions relating to the underlying properties.

RioCan's Declaration of Trust contains provisions that have the effect of limiting the aggregate value of the investment by the Trust in mortgages, other than mortgages taken back on the sale of RioCan's properties, to a maximum of 30% of consolidated unitholders' equity. Additionally, RioCan is limited to the amount of capital that can be invested in greenfield developments and development properties held for resale to no more than 15% of the book value of RioCan's total consolidated unitholders' equity, and this limitation also applies to any mortgages receivable to fund the co-owners' share of such developments referred to as mezzanine financing. At December 31, 2017, RioCan was in compliance with these restrictions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Cash Management

RioCan maintains a committed revolving unsecured operating credit facility to provide financial liquidity which can be drawn or repaid at short notice, reducing the need to hold liquid resources in cash and deposits. This minimizes costs arising from the difference between borrowing and deposit rates, while reducing credit exposure.

Capital Management Framework

RioCan defines capital as the aggregate of common unitholder and preferred unitholders' equity and debt. The Trust's capital management framework is designed to maintain a level of capital that:

- complies with investment and debt restrictions pursuant to the Trust's Declaration;
- complies with debt covenants;
- enables RioCan to achieve target credit ratings;
- funds the Trust's business strategies; and
- builds long-term unitholder value.

The key elements of RioCan's capital management framework are set out in the Trust's Declaration, and/or approved by the Trust's Board, through the Board's annual review of the strategic plan and budget, supplemented by periodic Board and related committee meetings. Capital adequacy is monitored by management of the Trust by assessing performance against the approved annual plan throughout the year, which is updated accordingly, and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants (refer to note 26 of RioCan's 2017 Annual Consolidated Financial Statements). In selecting appropriate funding choices, RioCan's objective is to manage its capital structure in such a way so as to diversify its funding sources while minimizing its funding costs and risks. For 2018, RioCan expects to be able to satisfy all of its financing requirements through the use of some or all of the following: cash on hand, cash generated by operations, refinancing of maturing debt, utilization of its operating line of credit, credit facilities, construction financing facilities, sale of available-for-sale marketable securities, sale of non-core properties and secondary markets properties, and through public offerings of unsecured debentures and common equity. If market conditions become challenging, the Trust could finance certain assets currently unencumbered by debt or issue preferred units.

Debt Metrics

RioCan's debt metrics are tracked and disclosed on a quarterly basis to help facilitate financial statement users' and stakeholders' understanding of RioCan's ability to service its debt and fixed charges. These metrics include ratios measuring interest coverage, debt service coverage, fixed charge coverage, debt to Adjusted EBITDA, NOI expected to be generated from unencumbered assets and unencumbered assets to unsecured debt.

Presented below are the Trust's key debt metrics presented on both an IFRS and RioCan's proportionate share basis in comparison to our targeted ratios:

	Targeted Ratios	Rolling 12 months ended			
		IFRS		RioCan's proportionate share	
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Interest coverage (i)	>3.00x	3.87	3.38	3.84	3.36
Debt service coverage (i)	>2.25x	3.08	2.62	3.06	2.61
Fixed charge coverage (i)	>1.10x	1.17	1.10	1.17	1.10
Debt to adjusted EBITDA (i)	<8.0x	7.49	8.04	7.57	8.10
IFRS					
<i>(thousands of dollars)</i>		December 31, 2017	December 31, 2016		
As at					
Unencumbered assets		\$ 7,663,381	\$ 6,625,322		
Unsecured debt:					
Debentures		\$ 2,700,000	\$ 2,250,000		
Amounts drawn on revolving unsecured operating line of credit		390,000	505,185		
Amounts drawn on non-revolving unsecured credit facilities		300,000	—		
Total unsecured debt outstanding		\$ 3,390,000	\$ 2,755,185		
Unencumbered assets to unsecured debt	>200%	226%	240%		
% NOI generated from unencumbered assets (ii)	>50%	56.7%	49.5%		

(i) Refer to section *Non-GAAP Measures* of this MD&A for further details. See tables below for calculation of Adjusted EBITDA for the respective periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(ii) Ratio is calculated on a continuing operations basis.

As part of our capital management strategy, it is our objective to reduce leverage and further improve our unencumbered asset and coverage ratios. As at December 31, 2017, we exceeded all of our debt metrics targets.

The interest and debt service coverage ratios calculated at RioCan's proportionate share for the year ended December 31, 2017 improved compared to December 31, 2016 mainly due to lower interest and debt service costs as a result of the repayment of debt using the net proceeds from the U.S. sale and interest savings from mortgage refinancing, and an increase in Adjusted EBITDA primarily as a result of acquisitions (net of dispositions), strong same property NOI growth, development completions, and higher gains from sale of available-for-sale marketable securities.

The fixed charge coverage ratio calculated at RioCan's proportionate share for the year ended December 31, 2017 improved compared to December 31, 2016, mainly due to lower total fixed charges (interest cost plus distributions to preferred and common unitholders) resulting from lower interests as noted above and redemption of Series C preferred units in Q2 2017, as well as increase in Adjusted EBITDA for reasons as described above.

Debt to Adjusted EBITDA at RioCan's proportionate share has improved to 7.57 for the year ended December 31, 2017 mainly as a result of lower average debt balances outstanding as a result of the repayment of debt using the net proceeds from the U.S. sale in the second quarter of 2016, and an increase in Adjusted EBITDA for reasons noted above.

The percentage NOI generated from unencumbered assets has improved from 49.5% to 56.7% as we continued to unencumber assets during 2017. The unencumbered assets to unsecured debt ratio, however, decreased from 240% to 226% over this period as the increase in our unsecured debt of \$635 million, partially driven by tax payments relating to the U.S. portfolio sale and redemption of the Trust's Series C preferred units, outpaced the \$1.0 billion increase in unencumbered assets on a relative percentage basis. Overall, we are still well over our 200% target for this measure.

The following tables present a reconciliation of consolidated net income from continuing and discontinued operations attributable to unitholders to Adjusted EBITDA:

Year ended December 31, (thousands of dollars)	IFRS					
	2017			2016		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income attributable to unitholders	\$ 708,265	\$ 7,021	\$ 715,286	\$ 683,060	\$ 147,687	\$ 830,747
Add (deduct) the following items:						
Income tax expenses (recovery):						
Current	—	(2,871)	(2,871)	—	135,139	135,139
Deferred	(320)	—	(320)	(3,850)	(230,675)	(234,525)
Fair value (gains) on investment properties, net	(136,942)	—	(136,942)	(182,888)	(16,899)	(199,787)
Accrued property taxes under IFRIC 21	—	—	—	—	25,145	25,145
Internal leasing costs	10,882	—	10,882	10,931	706	11,637
Non-cash unit based compensation expense	4,757	—	4,757	1,640	—	1,640
Interest costs	171,418	—	171,418	179,527	18,927	198,454
Depreciation and amortization	9,865	—	9,865	4,386	12	4,398
Transaction gains on the sale of investment properties, net (i)	(1,275)	(1,651)	(2,926)	(6,075)	(65,116)	(71,191)
Transaction costs on investment properties	5,136	(549)	4,587	8,165	53,562	61,727
Adjusted EBITDA	\$ 771,786	\$ 1,950	\$ 773,736	\$ 694,896	\$ 68,488	\$ 763,384
Debt, net of cash and cash equivalents is calculated as follows:						
Average debt outstanding			\$ 5,848,033			\$ 6,200,515
Less: average cash and cash equivalents			(53,153)			(60,710)
Debt, net of cash and cash equivalents			\$ 5,794,880			\$ 6,139,805
Debt to Adjusted EBITDA			7.49			8.04

(i) Includes transaction gains and losses realized on the disposal of Canadian and U.S. investment properties.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, <i>(thousands of dollars)</i>	RioCan's proportionate share					
	2017			2016		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) attributable to unitholders	\$ 708,265	\$ 7,021	\$ 715,286	\$ 683,060	\$ 147,687	\$ 830,747
Add (deduct) the following items:						
Income tax expense (recovery):						
Current	—	(2,871)	(2,871)	—	135,139	135,139
Deferred	(320)	—	(320)	(3,850)	(230,675)	(234,525)
Fair value gains on investment property, net	(136,534)	—	(136,534)	(181,951)	(16,899)	(198,850)
Accrued property taxes under IFRIC 21	—	—	—	—	25,145	25,145
Internal leasing costs	10,882	—	10,882	10,931	706	11,637
Non-cash unit based compensation expense	4,757	—	4,757	1,640	—	1,640
Interest costs	173,791	—	173,791	181,496	18,927	200,423
Depreciation and amortization	9,865	—	9,865	4,386	12	4,398
Transaction gains on the sale of investment properties, net (i)	(1,275)	(1,651)	(2,926)	(6,075)	(65,116)	(71,191)
Transaction costs	5,136	(549)	4,587	8,165	53,562	61,727
Adjusted EBITDA	\$ 774,567	\$ 1,950	\$ 776,517	\$ 697,802	\$ 68,488	\$ 766,290
Net debt is calculated as follows:						
Average debt outstanding			\$ 5,933,897			\$ 6,271,581
Less: average cash and cash equivalents			(55,498)			(62,165)
Net debt			\$ 5,878,399			\$ 6,209,416
Debt to Adjusted EBITDA			7.57			8.10

(i) Includes transaction gains and losses realized on the disposal of Canadian and U.S. investment properties.

Credit Ratings

RioCan intends to maintain strong debt service coverage and fixed charge coverage ratios as part of its commitment to maintaining its investment-grade debt ratings from Standard and Poor's (S&P) and from Dominion Bond Rating Services Limited (DBRS). A credit rating generally provides an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally AAA) to default payment (generally D). The addition of a rating outlook modifier, such as "Positive", "Negative", "Stable" or "Developing" assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years).

As at December 31, 2017, S&P provided RioCan with an issuer credit rating of BBB with a Stable outlook and rates the Trust's senior unsecured debentures BBB. An obligor with a credit rating of BBB by S&P exhibits adequate capacity to meet its financial obligations, however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A credit rating of BBB- or higher is an investment grade rating.

As at December 31, 2017, DBRS provided RioCan with a credit rating of BBB (high) relating to the Debentures with a Stable trend. A credit rating of BBB by DBRS is generally an indication of adequate credit quality, the capacity for the payment of financial obligations is considered acceptable but the entity may be vulnerable to future events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Structure

RioCan's capital structure is as follows:

<i>(thousands of dollars)</i>	IFRS		RioCan's proportionate share	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
As at				
Capital:				
Debtures payable	\$ 2,694,619	\$ 2,248,024	\$ 2,694,619	\$ 2,248,024
Mortgages payable	2,300,247	2,699,935	2,364,415	2,734,216
Lines of credit and other bank loans	904,429	705,633	947,930	746,810
Mortgages on properties held for sale	32,670	—	32,670	—
Total debt	\$ 5,931,965	\$ 5,653,592	\$ 6,039,634	\$ 5,729,050
Preferred unit equity	—	144,755	—	144,755
Common unit equity	8,044,686	7,865,133	8,044,686	7,865,133
Total capital	\$ 13,976,651	\$ 13,663,480	\$ 14,084,320	\$ 13,738,938
Total assets	\$ 14,376,578	\$ 14,173,760	\$ 14,492,113	\$ 14,249,875
Cash and cash equivalents	\$ 70,225	\$ 54,366	\$ 73,423	\$ 55,463
Ratio of total debt to total assets (net of cash and cash equivalents)	41.0%	39.7%	41.4%	40.0%
Ratio of floating rate debt to total debt	16.5%	13.8%	17.1%	14.3%

As at December 31, 2017, RioCan's ratio of floating rate debt to total debt at RioCan's proportionate share increased to 17.1% (December 31, 2016 - 14.3%), mostly as a result of addition of two new non-revolving unsecured credit facilities in the amount of \$300 million in Q4 2017, partially offset by a partial repayment of our revolving unsecured operating line of credit with proceeds from debentures issued during the year. RioCan continues to utilize floating rate debt for the purpose of interest rate risk management and for the flexibility it offers, such as in the execution of investment transactions.

Our leverage ratio at RioCan's proportionate share increased from 40.0% at December 31, 2016 to 41.4% at December 31, 2017 primarily due to the payment of U.S. taxes that were accrued in 2016, relating to the sale of our U.S. portfolio, as well as redemption of the Trust's Series C preferred trust units on June 30, 2017. We expect our total debt to total asset ratio to fluctuate between 38% to approximately 42%. Over the next 12 to 18 months, we expect this ratio to rise toward the higher end of this range.

Debentures Payable

We have the following series of senior unsecured debentures outstanding as at December 31, 2017 and 2016:

Series	Maturity date	Coupon rate	Interest payment frequency	2017	2016
P	March 1, 2017	3.80%	Semi-annual	\$ —	\$ 150,000
S	March 5, 2018	2.87%	Semi-annual	250,000	250,000
Q	June 28, 2019	3.85%	Semi-annual	350,000	350,000
U	June 1, 2020	3.62%	Semi-annual	150,000	150,000
X	August 26, 2020	2.19%	Semi-annual	250,000	250,000
Z	April 9, 2021	2.19%	Semi-annual	300,000	—
R	December 13, 2021	3.72%	Semi-annual	250,000	250,000
V	May 30, 2022	3.75%	Semi-annual	250,000	250,000
Y	October 3, 2022	2.83%	Semi-annual	300,000	—
T	April 18, 2023	3.73%	Semi-annual	200,000	200,000
W	February 12, 2024	3.29%	Semi-annual	300,000	300,000
I	February 6, 2026	5.95%	Semi-annual	100,000	100,000
Contractual obligations				\$ 2,700,000	\$ 2,250,000
Unamortized debt financing costs				(5,381)	(1,976)
Balance - end of year				\$ 2,694,619	\$ 2,248,024

As at December 31, 2017, RioCan had debentures outstanding totalling \$2.7 billion, net of unamortized debt financing costs (December 31, 2016 – \$2.2 billion).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in the carrying amount of debentures resulted primarily from the following:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Balance, beginning of period	\$ 2,700,000	\$ 2,250,000	\$ 2,250,000	\$ 2,000,000
Issuances	—	—	600,000	250,000
Repayments	—	—	(150,000)	—
Foreign currency translation	—	—	—	—
Contractual obligations	2,700,000	2,250,000	2,700,000	2,250,000
Unamortized debt financing costs	(5,381)	(1,976)	(5,381)	(1,976)
Balance, end of period	\$ 2,694,619	\$ 2,248,024	\$ 2,694,619	\$ 2,248,024

The debentures have covenants relating to our 60% leverage limit to Aggregate Assets as set out in RioCan's Declaration of Trust, the maintenance of at least \$1.0 billion in consolidated unitholders' equity and maintenance of an interest coverage ratio of 1.65 times or better. There are no requirements under the unsecured debenture covenants that require RioCan to maintain unencumbered assets. The Series I debentures, which are due in 2026 and are \$100 million in aggregate, have an additional provision that provides RioCan with the right, at any time, to convert these debentures to mortgage debt, subject to the acceptability of the security given to the debenture holders. In such an event, the covenants relating to the 60% leverage limit, minimum consolidated unitholders' equity and interest coverage ratio would be eliminated for this series of debentures.

Issuances

On January 16, 2017, the Trust issued \$300 million principal amount of Series Y senior unsecured debentures, which mature on October 3, 2022 and carry a coupon rate of 2.83%. The interest on these debentures is payable semi-annually commencing April 3, 2017. These debentures were sold at a price of \$999.97 per \$1,000 principal amount with an effective yield of 2.831% if held to maturity.

On April 10, 2017, the Trust issued \$300 million principal amount of Series Z senior unsecured debentures at par, which mature on April 9, 2021 and carry a coupon rate of 2.194%. The interest on these debentures is payable semi-annually commencing October 9, 2017.

On January 31, 2018, the Trust issued \$300 million of Series AA senior unsecured debentures, which mature on September 29, 2023 and carry a coupon rate of 3.209%. The interest on these debentures is payable semi-annually commencing September 29, 2018. The debentures were sold at a price of \$999.95 per \$1,000 principal amount with an effective yield of 3.209% if held to maturity. The Series AA debentures can be redeemed in whole or in part at par on or after August 29, 2023 prior to maturity.

Each of Series Y, Series Z and Series AA senior unsecured debentures have similar terms as the rest of RioCan's debentures, with the exception of the additional provision for the Series I debentures, as described above, and a double trigger change of control provision for Series AA debentures (refer to the prospectus and indenture agreement publicly filed). The net proceeds from these issuances are used by RioCan to fund development and property acquisitions, repayment of certain indebtedness and other general trust purposes.

Redemptions

On March 1, 2017, RioCan redeemed, in full, its \$150 million 3.80% Series P senior unsecured debentures in accordance with its terms.

Mortgages Payable

Mortgages payable consist of the following and are presented net of unamortized financing costs:

As at	December 31, 2017	December 31, 2016
Mortgages payable	\$ 2,300,247	\$ 2,699,935
Mortgages on properties held for sale	32,670	—
	\$ 2,332,917	\$ 2,699,935
Fixed rate mortgages	\$ 2,181,976	\$ 2,627,590
Floating rate mortgages	150,941	72,345
	\$ 2,332,917	\$ 2,699,935

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in the carrying amount of the mortgages payable resulted primarily from the following:

(thousands of dollars)

Year ended December 31,	2017		2016	
Contractual obligations, beginning of year	\$	2,687,059	\$	3,441,106
New borrowings:				
Fixed rate term mortgages		267,375		91,300
Floating rate term mortgages		67,500		72,590
Principal repayments:				
Scheduled amortization		(51,136)		(61,715)
At maturity: Fixed rate term mortgages		(667,559)		(853,484)
Disposed on the sale of properties		(1,024)		(29,359)
Assumed on the acquisition of properties		22,037		62,697
Foreign currency translation		—		(36,076)
Contractual obligations, end of year		2,324,252		2,687,059
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties		12,005		16,658
Unamortized debt financing costs, net of premiums and discounts		(3,340)		(3,782)
Balance, end of year	\$	2,332,917	\$	2,699,935
Less: Mortgages associated with properties held for sale		32,670		—
	\$	2,300,247	\$	2,699,935

RioCan's mortgages maturity profile and future repayments are as outlined below:

(thousands of dollars, except percentage amounts)	Fixed rate		Floating rate		Scheduled principal amortization	Total mortgages payable	Weighted average interest rate
	Contractual principal	Weighted average interest rate	Contractual principal	Weighted average interest rate			
Year of mortgage maturity							
2018	\$ 469,590	3.80%	\$ 61,132	2.59%	\$ 48,129	\$ 578,851	3.67%
2019	281,197	4.30%	67,500	2.62%	36,853	385,550	4.01%
2020	427,888	3.69%	22,590	2.83%	22,689	473,167	3.65%
2021	348,782	4.40%	—	—%	12,004	360,786	4.40%
2022	124,544	3.15%	—	—%	7,924	132,468	3.15%
Thereafter	385,419	3.70%	—	—%	8,011	393,430	3.70%
	\$ 2,037,420	3.89%	\$ 151,222	2.64%	\$ 135,610	\$ 2,324,252	3.81%
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties						12,005	
Unamortized debt financing costs, net of premiums and discounts						(3,340)	
Balance						\$ 2,332,917	

The weighted average contractual and effective rates for fixed and floating rate mortgages payable are as follows:

	Contractual		Effective	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Fixed rate	3.89%	4.07%	3.86%	4.04%
Floating rate	2.64%	2.21%	2.89%	2.46%
Total	3.81%	4.02%	3.80%	3.99%

At the outset of 2017, RioCan had \$702.7 million of mortgage principal maturing in 2017 at a weighted average contractual interest rate of 4.18%. For the year ended December 31, 2017, RioCan completed new term mortgage borrowings of \$334.9 million at a weighted average interest rate of 3.04% and a weighted average term of 4.7 years. For the year ended December 31, 2017, repayments of maturing mortgage balances and scheduled amortization amounted to \$718.7 million.

The majority of our mortgage debt provides recourse to the assets of the Trust, as opposed to only having recourse to the specific property charged. We follow this policy as it generally results in lower interest rates for the Trust.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lines of Credit and Other Bank Loans

Lines of credit and other bank loans consist of the following:

As at	December 31, 2017	December 31, 2016
Revolving unsecured operating line of credit (i)	\$ 387,093	\$ 502,359
Non-revolving unsecured credit facilities	299,360	—
Construction lines and other bank loans	217,976	203,274
	\$ 904,429	\$ 705,633

(i) Amount outstanding is net of \$3.5 million in unamortized financing costs.

Revolving unsecured operating line of credit

RioCan had cash advances of \$390.0 million and \$610.0 million in cash available to be drawn from this revolving unsecured operating line of credit at December 31, 2017.

During the second quarter of 2017, the Trust exercised its option to extend the maturity date on this revolving unsecured operating line of credit to May 31, 2022. All other terms and conditions remained the same.

Non-revolving unsecured credit facilities

On October 31, 2017, the Trust entered into a \$200 million non-revolving unsecured credit facility with two financial institutions (consisting of a Schedule I and a Schedule III bank), maturing January 31, 2023 bearing interest at a rate of Bankers' Acceptances plus 110 basis points per annum. In addition, the Trust entered into a \$100 million non-revolving unsecured credit facility on December 27, 2017 with a Schedule I bank, maturing December 27, 2019 bearing interest at a rate of Bankers' Acceptances plus 100 basis points per annum. The second facility provided the Trust with an option to increase the facility by up to \$50 million with the addition of a lender. As of December 31, 2017, the Trust has drawn \$300 million on the two non-revolving unsecured credit facilities. Subsequent to year end, the Trust exercised its option and borrowed an additional \$50 million from a Schedule III bank under the second facility.

The \$300 million in total draws on the non-revolving unsecured credit facilities as of December 31, 2017 were used to pay down the Trust's revolving unsecured operating line of credit and mortgages payable. The agreements governing these non-revolving unsecured credit facilities require the Trust to maintain certain financial covenants similar to those of RioCan's \$1 billion revolving unsecured operating line of credit. Refer to note 26 of the 2017 Annual Consolidated Financial Statements for additional details.

Construction lines of credit and other bank loans

In addition to the revolving unsecured operating line of credit and non-revolving unsecured credit facilities, the Trust has secured credit facilities and other bank loans, which include variable rate non-revolving secured construction facilities for the funding of certain development properties. At December 31, 2017, these secured facilities and other bank loans have an aggregate maximum borrowing capacity of \$387.9 million and mature between 2018 and 2019, of which the Trust had drawn \$218.0 million (December 31, 2016 - \$203.3 million). The weighted average contractual interest rate on the aggregate amounts outstanding is 2.28% (December 31, 2016 - 1.42%).

Letter of Credit Facilities

The Trust has aggregate letter of credit facilities with certain Schedule I banks totaling \$79.0 million (December 31, 2016 - \$80.5 million). As at December 31, 2017, the Trust's outstanding letters of credit under these facilities was \$37.2 million (December 31, 2016 - \$28.9 million).

Total Debt Profile

As at December 31, 2017, RioCan's total debt had a 3.3 year weighted average term to maturity (December 31, 2016 – 3.4 years) bearing interest at a weighted average contractual interest rate of 3.37% (December 31, 2016 – 3.54%). As at December 31, 2017, 16.5% of the Trust's total debt is at floating interest rates compared to 13.8% at December 31, 2016.

RioCan's fixed and floating rate debt as a percentage of total debt and term to maturity are as follows:

As at December 31, 2017	Total debt	Percentage of total RioCan's aggregate debt	Weighted average term to maturity in years
Total debt at:			
Fixed rate debt	\$ 4,951,392	83.5%	3.37
Floating rate debt	980,573	16.5%	3.08
Total debt	\$ 5,931,965	100.0%	3.32

MANAGEMENT'S DISCUSSION AND ANALYSIS

The weighted average contractual and effective rates for fixed and floating aggregate debt including mortgages payable, lines of credit and other bank loans, debentures and the impact of hedging programs, where applicable, are as follows:

	Contractual		Effective	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Fixed rate	3.55%	3.81%	3.52%	3.77%
Floating rate	2.47%	1.81%	2.50%	1.85%
Total	3.37%	3.54%	3.35%	3.50%

RioCan's debt maturity profile and future repayments are as outlined below:

<i>(thousands of dollars, except percentage amounts)</i>	Contractual principal maturities and interest rates							
	Lines of credit and other bank loans	Weighted average interest rate	Mortgages payable	Weighted average interest rate	Debentures payable	Weighted average interest rate	Total aggregate debt	Weighted average interest rate
Year of debt maturity								
2018	\$ 127,523	2.01%	\$ 578,851	3.67%	\$ 250,000	2.87%	\$ 956,374	3.24%
2019	190,454	2.52%	385,550	4.01%	350,000	3.85%	926,004	3.64%
2020	—	—%	473,167	3.65%	400,000	2.72%	873,167	3.23%
2021	—	—%	360,786	4.40%	550,000	2.89%	910,786	3.48%
2022	390,000	2.53%	132,468	3.15%	550,000	3.25%	1,072,468	2.97%
Thereafter	200,000	2.68%	393,430	3.70%	600,000	3.88%	1,193,430	3.62%
	\$ 907,977	2.49%	\$ 2,324,252	3.81%	\$ 2,700,000	3.28%	\$ 5,932,229	3.37%
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties							12,005	
Unamortized debt financing costs, net of premiums and discounts							(12,269)	
Balance							\$ 5,931,965	

Liquidity

Liquidity refers to the Trust having and/or generating sufficient amounts of cash and equivalents to fund the ongoing operational commitments, distributions to unitholders and planned growth in the business.

RioCan retains a portion of its operating cash flows to help fund ongoing maintenance capital expenditures including tenant improvements costs and long term unfunded contractual obligations, among other items.

Cash on hand, borrowings under the revolving unsecured operating line of credit, non-revolving unsecured credit facilities, construction financing facilities, equity and debt capital markets and the potential sale of assets also provide the necessary liquidity to fund ongoing and future capital expenditures and obligations.

As at December 31, 2017, RioCan had the following sources of liquidity available:

- \$70.2 million of cash and cash equivalents;
- \$610.0 million of cash available under its undrawn revolving unsecured operating line of credit;
- \$169.9 million of cash available under undrawn construction facilities to fund future construction commitments; and
- 187 unencumbered investment properties with a fair value of \$7.7 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RioCan's liquidity profile is as follows:

(thousands of dollars)	IFRS		RioCan's proportionate share	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
As at				
Cash and cash equivalents	\$ 70,225	\$ 54,366	\$ 73,423	\$ 55,463
Undrawn revolving unsecured operating line of credit	610,000	494,380	610,000	494,380
Undrawn construction lines of credit and other bank loans	169,927	144,534	169,927	144,534
Liquidity	\$ 850,152	\$ 693,280	\$ 853,350	\$ 694,377
Contractual debt:				
Debentures payable	\$ 2,700,000	\$ 2,250,000	\$ 2,700,000	\$ 2,250,000
Mortgages payable	2,324,252	2,687,058	2,388,481	2,719,688
Lines of credit and other bank loans	907,977	708,459	951,477	750,447
Total contractual debt	\$ 5,932,229	\$ 5,645,517	\$ 6,039,958	\$ 5,720,135
Percentage of total contractual debt:				
Liquidity	14.3%	12.3%	14.1%	12.1%
Unsecured debt	57.1%	48.8%	56.1%	48.2%
Secured debt	42.9%	51.2%	43.9%	51.8%

Our liquidity is impacted by contractual debt commitments and committed expenditures on active development projects. Our contractual debt commitments and committed development expenditures for the next five years are as follows:

(thousands of dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Contractual obligations:							
Lines of credit and other bank loans	\$ 127,523	\$ 190,454	\$ —	\$ —	\$ 390,000	\$ 200,000	\$ 907,977
Mortgages payable	578,851	385,550	473,167	360,786	132,468	393,430	2,324,252
Unsecured debentures	250,000	350,000	400,000	550,000	550,000	600,000	2,700,000
Lease commitments	3,752	3,672	3,422	3,124	3,061	24,064	41,095
Total	\$ 960,126	\$ 929,676	\$ 876,589	\$ 913,910	\$ 1,075,529	\$ 1,217,494	\$ 5,973,324
Active committed developments (i)	329,437	331,371	196,057	87,965	6,066	—	950,896
Total	\$ 1,289,563	\$ 1,261,047	\$ 1,072,646	\$ 1,001,875	\$ 1,081,595	\$ 1,217,494	\$ 6,924,220

(i) Represents estimated costs to complete properties under active development only where funds have been committed due to leases having been signed and/or construction activities are underway.

The Trust's contractual debt obligations and projected development expenditures can be funded by net proceeds from the sale of non-core and secondary markets assets (including, but not limited to, sale of excess land and potential air rights), existing cash on hand, our revolving unsecured operating line of credit, non-revolving unsecured credit facilities, proceeds from mortgage refinancing and proceeds from the issuance of unsecured debentures or issuance of equity units. In addition, RioCan has undrawn construction facilities to fund future construction commitments as it pertains to certain development projects and our debt strategy has resulted in an unencumbered asset pool with an approximate fair value of \$7.7 billion as at December 31, 2017, which can generate additional liquidity, if needed.

Our unitholder dividend reinvestment plan ("DRIP") and our direct purchase plans result in the issuance of units, as opposed to a cash outlay, thereby providing an additional source of capital to fund RioCan's activities. Refer to *Distributions to Unitholders* section of this MD&A for further discussion.

As announced on October 2, 2017, RioCan suspended its DRIP effective November 1, 2017. Unitholders that are enrolled in the DRIP will receive the future distributions in cash commencing with any distribution declared in November 2017. If RioCan elects to reinstate the DRIP in the future, unitholders that were enrolled in the DRIP at the time of its suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

Unencumbered Assets

RioCan has the continued flexibility to generate additional funds in 2018 through upward refinancing of maturing mortgage balances.

As at December 31, 2017, our debt strategy has resulted in approximately 56.7% of annualized NOI being generated by unencumbered assets, providing us with access to a pool of assets for obtaining additional secured debt (December 31, 2016 - 49.5%). The fair value of the unencumbered investment property assets as at December 31, 2017 is estimated at approximately \$7.7 billion for 187 properties or 58.2% of the total fair value of investment properties as compared to 183 properties with a fair value of \$6.6 billion as at December 31, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below presents RioCan's investment properties at fair value that are available to finance and/or refinance mortgages maturing in 2018, 2019 and thereafter:

<i>(thousands of dollars)</i> As at December 31, 2017	Number of Properties	Investment Properties	Total contractual mortgages payable		
			2018	2019	Thereafter
Unencumbered assets (i)	187	\$ 7,663,381	\$ —	\$ —	\$ —
Encumbered assets with mortgages maturing in 2018	16	1,311,099	578,851	—	—
Encumbered assets with mortgages maturing in 2019	19	772,760	—	385,550	—
Encumbered assets with mortgages maturing thereafter	67	3,823,182	—	—	1,359,850
Total	289	\$ 13,570,422	\$ 578,851	\$ 385,550	\$ 1,359,850

(i) Substantially all of the Trust's unencumbered assets are income producing properties and 100% owned.

Considering the availability of our revolving operating line of credit, unencumbered asset pool, relatively low leverage and demonstrated historical access to debt capital markets, we expect that all maturities will be refinanced or repaid in the normal course of business, and as such, do not anticipate that we will be required to sell assets in 2018 to meet our maturing debt obligations in 2018, although we will sell assets as part of our acceleration of major markets focus strategy.

Guarantees

As at December 31, 2017, the maximum exposure to loss resulting from the Trust's mortgage guarantees, on behalf of certain of our co-owners' interests and mortgages assumed by purchasers on property dispositions, is approximately \$385.0 million, with expiries between 2018 and 2034 (December 31, 2016 - \$427.7 million). The maximum exposure to credit risk relating to a guarantee is the maximum risk of loss if there was a total default, without consideration of recoveries under recourse provisions against the aforementioned parties or the properties secured.

As at and for the year ended December 31, 2017, there have been no defaults by the primary obligors for debts on which we have provided guarantees and, as a result, no contingent loss on these guarantees has been recognized in our 2017 Annual Consolidated Financial Statements.

The parties on behalf of which RioCan has outstanding guarantees are as follows:

<i>(thousands of dollars)</i> As at	December 31, 2017	December 31, 2016
Partners and co-owners		
HBC (RioCan-HBC JV)	\$ 122,467	\$ 124,082
KingSett	60,368	83,750
Bayfield	63,230	63,230
Metropia and Bazis	72,834	39,679
Trinity	22,614	22,614
Other	7,410	7,555
	\$ 348,923	\$ 340,910
Assumption of mortgages by purchasers on property dispositions	36,103	86,826
	\$ 385,026	\$ 427,736

Hedging Activities

Interest rate risk

As at December 31, 2017, the outstanding notional amount of floating-to-fixed interest rate swaps was \$682.5 million (December 31, 2016 – \$682.6 million) and the term to maturity of these agreements ranges from May 2018 to April 2024. We assess the effectiveness of the hedging relationship on a quarterly basis and have determined there is no ineffectiveness in the hedging of interest rate exposures as at December 31, 2017.

Refer to note 25 of the 2017 Annual Consolidated Financial Statements for further details.

Foreign currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. As a result of the Trust's disposal of its U.S. property portfolio in 2016 and the associated repayment of U.S. denominated debt, RioCan has significantly reduced its foreign exchange risk.

Refer to note 25 of the 2017 Annual Consolidated Financial Statements for further details.

Cross currency interest rate swaps

On occasion, we will fund our Canadian assets by electing to draw on our operating credit facility in U.S. dollars bearing interest at U.S. LIBOR when it is determined that it is economically advantageous to do so.

In such circumstances, the Trust enters into cross currency interest rate swaps with Schedule I bank counterparties as part of its strategy to hedge such U.S. dollar denominated borrowings on the Trust's unsecured operating credit facility. These have the

MANAGEMENT'S DISCUSSION AND ANALYSIS

economic effect of converting floating rate U.S. dollar borrowings to floating rate Canadian dollar borrowings. These cash flow hedges are short-term in nature and qualify for hedge accounting. The hedges are expected to be highly effective since all critical terms of the hedged item and hedging instrument match. As at December 31, 2017, the Trust has no cross currency interest rate swaps outstanding.

Trust Units

As at December 31, 2017, there are 323.7 million common trust units outstanding, including exchangeable limited partnership units. All common units outstanding have equal rights and privileges and entitle the holder to one vote for each unit at all meetings of unitholders. During the quarter and year ended December 31, 2017 and 2016, we issued common units as follows:

<i>(number of units in thousands)</i>	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Units outstanding, beginning of period (i)	327,470	325,845	326,615	322,483
Units issued:				
Distribution reinvestment plan	186	551	1,003	2,399
Unit option plan	—	202	10	1,671
Direct purchase plan	8	17	36	36
Exchangeable limited partnership units	—	—	—	26
Units repurchased and cancelled	(3,930)	—	(3,930)	—
Units outstanding, end of period (i)	323,734	326,615	323,734	326,615

(i) Included in units outstanding are exchangeable limited partnership units of three limited partnerships that are subsidiaries of the Trust (the LP units) which were issued to vendors, as partial consideration for income properties acquired by RioCan (December 31, 2017 – 1,030,342 LP units, December 31, 2016 – 1,164,010 LP units). During the year ended December 31, 2017, 133,668 common trust units were issued pursuant to the exercise of exchangeable limited partnership units in connection with previous acquisitions, followed by an equivalent reduction in exchangeable limited partnership units which are included as part of the total Units outstanding. RioCan is the general partner of the limited partnerships. The LP units are entitled to distributions equivalent to distributions on RioCan units, must be exchanged for RioCan units on a one-for-one basis and are exchangeable at any time at the option of the holder. Subsequent to the year ended December 31, 2017, 150,000 common trust units were issued pursuant to the exercise of exchangeable limited partnership units in connection with previous acquisitions, followed by an equivalent reduction in exchangeable limited partnership units which are included as part of the total Units outstanding.

As of February 13, 2018, there are 323.7 million common units issued and 7.8 million unit options issued and outstanding under the Trust's incentive unit option plan.

Distribution Reinvestment Plan ("DRIP")

During the three months ended December 31, 2017, 0.2 million units were issued pursuant to our DRIP resulting in \$4.6 million in equity capital and representing a participation rate of 4.0%. During the same period in 2016, the Trust issued 0.6 million units resulting in \$7.1 million in equity capital, representing a participation rate of 6.2%.

During the year ended December 31, 2017, 1.0 million units were issued pursuant to our DRIP resulting in \$25.3 million in equity capital, representing a participation rate of 5.5%. During the same period in 2016, the Trust issued 2.4 million units pursuant to our DRIP resulting in \$60.8 million in equity capital, representing a participation rate of 13.3%. During the first quarter of 2016, we eliminated our 3.1% discount on the distribution reinvestment plan, resulting in a decline in our DRIP participation rate.

As announced on October 2, 2017, RioCan suspended its DRIP effective November 1, 2017. Unitholders that are enrolled in the DRIP will receive the future distributions in cash commencing with any distribution declared in November 2017. If RioCan elects to reinstate the DRIP in the future, unitholders that were enrolled in the DRIP at the time of its suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

Senior Executive Restricted Equity Plan (Senior Executive REU Plan)

The Senior Executive REU Plan, as referenced above, is a new plan introduced in 2017 that provides for the allotment of REUs to the Chief Executive Officer (CEO), President & Chief Operating Officer and Chief Financial Officer of the Trust, and such other officers or executive employees of the Trust that are determined by the CEO and approved by RioCan's Human Resources and Compensation Committee. Each REU notionally represents the value of one unit of the Trust on the date of grant. Unit distributions paid during the period from grant date until settlement date will be credited to each REU participant in the form of additional REUs.

The number of REUs granted shall vest one-third on each of the first, second and third anniversary of the grant date, provided however that all vested REUs are only eligible for settlement upon the third anniversary of the grant date (the Settlement Date). Settlement of vested REUs is generally made within 30 days after the Settlement Date by the delivery of an equivalent number of common trust units purchased on the secondary market, net of applicable withholding taxes.

On February 28, 2017, the Trust granted 78,969 REUs under its New Senior Executive REU Plan. The grant date price was \$26.68 per unit based on the five-day volume weighted average market price of RioCan's common trust units traded on the TSX prior to the grant date, resulting in an aggregate fair value of \$2.1 million.

New Employee Restricted Equity Plan (Employee REU Plan)

The Employee REU Plan is a new plan introduced in 2017 that provides for the allotment of REUs to certain senior level employees of the Trust that do not participate in the Senior Executive REU Plan. Each REU notionally represents the value of

MANAGEMENT'S DISCUSSION AND ANALYSIS

one unit of the Trust on the date of grant. Unit distributions paid during the period from grant date until settlement date will be credited to each REU participant in the form of additional REUs.

The number of REUs granted shall vest fully on the third anniversary of the grant date (the Settlement Date), including distribution equivalents that have accumulated during the vesting period. Settlement of vested REUs is generally made within 30 days after the Settlement Date by way of the delivery of an equivalent number of common trust units purchased on the secondary market, net of applicable withholding taxes.

On February 28, 2017, the Trust granted 67,063 REUs under its Employee REU Plan. The grant date price was \$26.68 per unit based on the five-day volume weighted average market price of RioCan's common trust units traded on the TSX prior the grant date, resulting in an aggregate fair value of \$1.8 million.

New Performance Equity Unit Plan (New PEU Plan)

Effective January 1, 2017, the Trust implemented several changes to its executive pay program which takes into account unitholder feedback received during 2016. Included in these changes was a modification made to the comparator group for compensation benchmarking to include only peers that are domiciled in Canada. Specifically, RioCan adopted a single performance metric for its New PEU Plan, which is relative total unitholder return (TUR) against a peer group of S&P/TSX Capped REIT companies with a market capitalization above \$1.0 billion (excluding RioCan), plus First Capital Realty Inc. The second main change to this plan is that settlement on the vesting date will be effected via the delivery of an equivalent number of common trust units purchased on the secondary market, net of applicable withholding taxes.

During February 2017, the Trust granted 157,939 PEUs under its New PEU Plan at a fair value of \$4.3 million on grant date, where PEUs will fully vest in February 2020 with one-third vested each year over the three-year period.

Incentive unit option plan

As part of comprehensive changes to its executive compensation program, the Trust has enhanced the design of its long-term incentive program to reduce the frequency of option grants while replacing that portion of the overall long-term incentive compensation in 2017 with grants of New REU Plans and New PEU Plan as described above. As a result, RioCan did not grant any unit options during the year ended 2017.

As at December 31, 2017, 12.1 million unit options remain available for grant under the Plan (December 31, 2016 – 11.6 million unit options).

Normal course issuer bid

On October 10, 2017, RioCan announced the TSX approval of its notice of intention to make a normal course issuer bid (NCIB) for a portion of its common trust units as appropriate opportunities arise from time to time. During the year ended December 31, 2017, the Trust acquired and cancelled 3,930,174 units at a weighted average price of \$25.30 per unit, for a total cost of \$99.6 million. See note 15 in RioCan's 2017 Annual Consolidated Financial Statements for further details.

Preferred Units

On June 30, 2017, the Trust exercised its option to redeem all 5.98 million outstanding Series C preferred trust units at the cash redemption price of \$25.00 per Series C unit, for a total redemption price of \$149.5 million paid on June 30, 2017. Unit issue costs totalling \$4.7 million were recorded as a charge to retained earnings upon redemption.

On March 31, 2016, the Trust exercised its option to redeem all 5 million outstanding Series A preferred trust units at the cash redemption price of \$25.00 per Series A preferred trust unit, for total cash proceeds of \$125.0 million paid on April 1, 2016. Unit issue costs totalling \$4.3 million were recorded as a charge to retained earnings upon redemption, representing the excess of par redemption value over the carrying value of the preferred trust units.

Distributions to Unitholders

RioCan qualifies as a mutual fund trust and a "real estate investment trust" ("REIT Exemption") for Canadian income tax purposes. We expect to distribute all of our taxable income to unitholders and are entitled to deduct such distributions for Canadian income tax purposes. From time to time, RioCan may retain some taxable income and net capital gains, when appropriate, in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in our incorporated Canadian subsidiaries.

Our U.S. subsidiary qualified as a REIT for U.S. income tax purposes up to May 25, 2016, subsequent to the closing date of the sale of our U.S. property portfolio. The subsidiary distributed all of its U.S. taxable income and is entitled to deduct such distributions for U.S. income tax purposes. The subsidiary's qualification as a REIT depends on the REIT's satisfaction of certain asset, income, organizational, distribution, unitholder ownership and other requirements on a continuing basis. Our U.S. subsidiary was subject to a 30% or 35% withholding tax on distributions of its U.S. taxable income to Canada. We do not intend to distribute any withholding taxes paid or payable to our unitholders, related to the disposition. Should RioCan's U.S. subsidiary no longer qualify as a U.S. REIT for U.S. tax purposes prior to May 25th, 2016, certain statements contained in this MD&A may need to be modified.

We consolidate certain wholly owned incorporated entities that are subject to tax. The tax disclosures, expense and deferred tax balances relate only to these entities.

If we were to cease to qualify for the REIT Exemption for Canadian income tax purposes, certain distributions would not be deductible in computing income for Canadian income tax purposes and we would be subject to tax on such distributions at a rate substantially equivalent to the general corporate income tax rate. Other distributions would generally continue to be treated as

MANAGEMENT'S DISCUSSION AND ANALYSIS

returns of capital to unitholders.

From year to year, the taxability of the Trust's distributions may fluctuate depending upon the timing of recognition of certain gains and losses based on the activities of the Trust.

Our monthly distribution during 2017 was \$0.1175 per unit, representing \$1.41 per unit on an annualized basis.

Distributions to unitholders are as follows:

(thousands of dollars, except when otherwise noted)

Year ended December 31,	2017		2016	
Distributions declared to unitholders	\$	460,627	\$	458,388
Distributions reinvested through the distribution reinvestment plan		(25,273)		(60,782)
Distributions to common unitholders, net of distribution reinvestment plan	\$	435,354	\$	397,606
Distribution reinvestment plan participation rate		5.5%		13.3%

As announced on October 2, 2017, RioCan suspended its DRIP effective November 1, 2017. Unitholders that are enrolled in the DRIP will receive the future distributions in cash commencing with any distribution declared in November 2017. If RioCan elects to reinstate the DRIP in the future, unitholders that were enrolled in the DRIP at the time of its suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

As announced on December 1, 2017, the Trust increased its annual distribution to unitholders by \$0.03 per unit or 2.1% to \$1.44 per unit effective January 1, 2018.

Difference between cash flows provided by (used in) operating activities and distributions to unitholders

A comparison of distributions to unitholders with cash flows provided by operating activities and distributions, net of our distribution reinvestment plan, is as follows:

(thousands of dollars)

Year ended December 31,	2017		2016	
Cash flows provided by operating activities	\$	354,028	\$	425,096
Add / (deduct) the (increase) / decrease in non-cash working capital items		168,141		(125,741)
Cash flows provided by operating activities, excluding non-cash working capital items		522,169		299,355
Less: Distributions declared to unitholders		(460,627)		(458,388)
Excess (Deficit)		61,542		(159,033)
Add: Distributions reinvested through the distribution reinvestment plan		25,273		67,857
Excess (Deficit), net of distribution reinvestment plan	\$	86,815	\$	(91,176)

For year ended December 31, 2017, cash flows provided by operating activities, excluding non-cash working capital items, was higher than distributions declared to unitholders during the period by \$61.5 million. Accordingly, we expect to maintain adequate cash flows to fund future unitholder distributions.

For the year ended December 31, 2016, there was a shortfall of \$159.0 million primarily caused by \$188.7 million in income tax and transaction costs over the respective periods, in connection with the sale of our U.S. property portfolio in May of 2016. Excluding such taxes and transaction costs (which, for greater certainty, were funded from the sale proceeds of the U.S. property portfolio), RioCan would have generated approximately \$29.7 million of cash flow in excess of distributions to unitholders (excluding non-cash working capital items).

The following table summarizes the costs associated with the disposal of our U.S. properties in the years ended December 31, 2017 and 2016:

(thousands of dollars)

Year ended December 31,	2017		2016	
Current income tax expense (recoveries)	\$	(2,871)	\$	135,139
Transaction costs (recoveries)		(549)		53,562
	\$	(3,420)	\$	188,701

In determining the annual level of distributions to unitholders, we consider forward-looking cash flow information including forecasts and budgets and the future business prospects of the Trust. Furthermore, RioCan does not consider periodic cash flow fluctuations resulting from working capital items such as the timing of property operating costs and tax installments, and semi-annual debenture and mortgages payable interest payments in determining the level of distributions to unitholders in any particular period. In determining the annual level of distributions to unitholders, RioCan also considers the impact of its distribution reinvestment plan on its ability to sustain current distribution levels during the current period and on a rolling twelve month basis.

Additionally, in establishing the level of cash distributions to unitholders we consider the impact of, among other items, the future growth in the income producing portfolio, the current interest rate environment and cost of capital, completion of properties under development and residential inventory, impact of future acquisitions and dispositions, capital expenditures and leasing

MANAGEMENT'S DISCUSSION AND ANALYSIS

expenditures related to our income producing portfolio. Distributions to unitholders are expected to continue to be funded by cash flows generated from our real estate investments and fee generating activities.

The Trust does not use net income in accordance with IFRS as the basis to establish the level of unitholders' distributions as net income includes, among other items, non-cash fair value adjustments related to its investment property portfolio and deferred income taxes. In establishing the level of annual distributions to unitholders, consideration is given by RioCan to the level of cash flow from operating activities, capital expenditures for the property portfolio, preferred unitholder distributions (if any) and proceeds on the sale of available-for-sale marketable securities.

QUARTERLY RESULTS AND TREND ANALYSIS

<i>(millions of dollars, except per unit amounts)</i>	2017				2016			
As at and for the quarter ended (i)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 293	\$ 287	\$ 286	\$ 290	\$ 292	\$ 282	\$ 276	\$ 284
Net income attributable to unitholders	210	185	156	165	164	248	271	147
Net income from continuing operations attributable to unitholders	210	180	155	163	178	254	143	108
NOI (v)	184	183	180	176	179	174	166	167
FFO (v)	144	151	147	143	132	140	133	143
ACFO (v)	186	149	135	118	122	130	109	122
Total assets	14,377	14,376	14,275	14,273	14,174	14,056	13,469	15,856
Total debt (ii)	5,932	5,950	5,904	5,801	5,654	5,606	5,112	7,218
Common unitholder distributions	115	115	115	115	115	115	115	114
DRIP participation rate	4.0%	6.1%	5.6%	6.3%	6.2%	7.0%	9.1%	30.7%
Weighted average common units outstanding – diluted (in thousands)	326,155	327,438	327,201	326,956	326,639	326,658	325,811	323,812
Per unit basis (diluted)								
Net income attributable to unitholders from continuing operations	\$ 0.64	\$ 0.55	\$ 0.47	\$ 0.50	\$ 0.54	\$ 0.77	\$ 0.43	\$ 0.31
Net income attributable to unitholders	\$ 0.64	\$ 0.56	\$ 0.47	\$ 0.50	\$ 0.50	\$ 0.75	\$ 0.83	\$ 0.43
FFO (v)	\$ 0.44	\$ 0.46	\$ 0.45	\$ 0.44	\$ 0.40	\$ 0.43	\$ 0.41	\$ 0.44
Common unitholder distributions	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35
Net book value per unit (iii)	\$ 24.85	\$ 24.54	\$ 24.35	\$ 24.25	\$ 24.08	\$ 23.89	\$ 23.59	\$ 23.73
Closing market price per common unit	\$ 24.36	\$ 23.93	\$ 24.07	\$ 26.20	\$ 26.63	\$ 27.22	\$ 29.33	\$ 26.60
Key Performance Indicator Ratios								
Same Property NOI growth (decline) % (v)	2.9%	2.4%	1.9%	1.5%	2.2%	2.0%	0.1%	(2.2%)
FFO payout ratio (v)	78.8%	80.5%	82.0%	83.9%	83.6%	72.0%	71.7%	71.2%
ACFO payout ratio (v)	78.3%	87.9%	91.1%	95.9%	94.6%	75.8%	75.1%	71.9%
Debt to total assets	41.0%	41.1%	41.2%	40.5%	39.7%	39.6%	37.7%	45.4%
Debt to total assets (RioCan's proportionate share) (v)	41.4%	41.5%	41.5%	40.8%	40.0%	39.9%	38.0%	45.6%
Interest coverage (RioCan's proportionate share) (v)	3.84	3.78	3.74	3.54	3.36	3.23	3.11	3.11
Debt to Adjusted EBITDA (RioCan's proportionate share) (v)	7.57	7.63	7.51	7.90	8.10	8.07	8.17	8.46
Weighted average contractual interest rate	3.37%	3.42%	3.40%	3.44%	3.54%	3.63%	3.91%	3.60%
Unencumbered assets to unsecured debt (v)	226%	229%	231%	236%	240%	245%	256%	167%
% NOI generated from unencumbered assets (v)	56.7%	53.4%	52.6%	52.9%	49.5%	46.3%	43.7%	26.7%
Other								
Number of employees	650	666	659	673	669	660	655	726
Residency of unitholders (iv)								
– Canadian	68.6%	69.0%	69.2%	69.9%	69.9%	71.3%	71.8%	72.2%
– Non-resident	31.4%	31.0%	30.8%	30.1%	30.1%	28.7%	28.2%	27.8%

(i) Refer to RioCan's respective annual and interim MD&As issued for a discussion and analysis relating to those periods.

(ii) Total debt is defined as the sum of mortgages payable, lines of credit and other bank loans, mortgages on properties held for sale and debentures payable.

(iii) A non-GAAP measurement. Calculated by RioCan as common unitholders' equity divided by the number of units outstanding at the end of the reporting period. RioCan's method of calculating net book value per unit may differ from other issuers' methods and, accordingly, may not be comparable to net book value per unit reported by other issuers.

(iv) Estimates based on unitholder mailing addresses on record at the end of each reporting period.

(v) For definitions and basis of presentation of RioCan's non-GAAP measures, refer to the section *Presentation of Financial Information and Non-GAAP Measures* in this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our revenue and operating results are not materially impacted by seasonal factors. However, macroeconomic and market trends, as described under the *Outlook* section of this MD&A, do have an influence on the demand for space, occupancy levels and, consequently, our revenue and operating performance.

Overall, quarterly fluctuations in our revenue and operating results are mainly attributable to occupancy and same property growth, acquisitions and dispositions, the sale of available-for-sale marketable securities, Target backfill progress and fair value gains and losses on investment properties.

The revenue decline from Q1 2016 to Q2 2016 was mainly related to the sale of our U.S. portfolio in late May 2016. The further decline in revenue in Q3 2016 was due to a full quarter effect of the sale of the U.S. portfolio, partially offset by the CPPIB and Kimco portfolio acquisitions completed in Q3 2016. The subsequent revenue increase in Q4 2016 is largely due to the full quarter effects of our portfolio acquisitions and stronger same property growth. The lower revenues in Q1 2017 to Q3 2017 compared to Q4 2016 was primarily due the timing of common area maintenance and realty tax recoveries and no residential inventory sales. Revenue improved in Q4 2017 relative to Q3 2017 due to the timing of common area maintenance and realty tax recoveries, higher percentage rent and an increase in lease cancellation fees.

The above factors for quarterly revenue variations also affect the quarterly variations in net income, NOI, FFO and ACFO. The increase in net income from Q2 2017 to Q4 2017 was also related to higher fair market value gains on investment properties and higher gains on sale of marketable securities.

FFO over the same periods were relatively stable as compared to net income as fair value gains and losses are excluded from FFO. The increase in Q1 2017 FFO was mainly due to higher gains on sale of available-for-sale marketable securities, improved property operations and lower general and administrative costs. The increase in Q2 2017 FFO compared to Q1 2017, was mainly due to strong property operations. The increase in Q3 2017 FFO compared to Q2 2017 was mainly due to higher gains on sale of available-for-sale marketable securities and strong same property growth. The decrease in Q4 2017 FFO compared to Q3 2017 was mainly due to lower gains on sale of available-for-sale marketable securities, accelerated depreciation and amortization costs of certain management information systems and a one-time fair value adjustment to a loan receivable, partially offset by higher operating income and lower interest.

Quarterly changes in ACFO were driven by similar factors as for FFO, except for the quarterly net working capital changes included in ACFO. The decrease in ACFO from Q4 2016 to Q1 2017 was primarily due to inclusion of \$11.3 million net working capital decrease in ACFO in Q1 2017, as opposed to working capital increase of \$6.0 million in Q4 2016, which was further offset by higher gains on the sale of available-for-sale marketable securities, strong same property operations and general and administrative cost savings. The increase in ACFO from Q1 2017 to Q2 2017 was primarily due to inclusion of \$0.9 million net working capital decrease in ACFO in Q2 2017, as opposed to working capital decrease of \$11.3 million in Q1 2017, and strong same property operations. The increase in ACFO from Q3 2017 to Q4 2017 was primarily due to a one-time \$29.2 million special distribution from equity accounted investments in Q4 2017 and inclusion of \$22.9 million net working capital increase in ACFO in Q4 2017, as opposed to working capital increase of \$13.9 million in Q3 2017, as well as strong same property growth.

Aggregate debt levels and overall leverage declined by approximately 7% in Q2 2016 mainly due to the sale of our U.S. portfolio and the use of the net proceeds to lower our debt levels. The subsequent approximate 2% increase in debt levels in Q3 2016 was mainly attributable to Canadian acquisitions in Q3 2016 funded by debt. The 0.8% increase in leverage in Q1 2017 and further 0.8% increase in Q2 2017, was mainly attributable to payment of income taxes relating to the sale of U.S. taxes in Q1 2017 and redemption of the Series C preferred trust units in Q2 2017. The overall trend of improvement in interest coverage and debt to adjusted EBITDA from 2016 to 2017 was primarily due to the sale of the U.S. portfolio and use of the net proceeds to lower our debt levels, interest savings from our mortgage refinancing, higher gains on sale of available-for-sale marketable securities, and strong property operations.

The significant improvement in our unencumbered assets to unsecured debt and percentage of NOI expected to be generated from unencumbered assets in 2016 was mainly due to the sale of our U.S. portfolio and repayment of related mortgages, utilization of net proceeds from the sale to pay down secured Canadian mortgages, and the conversion of a secured line of credit facility to an unsecured credit facilities. In 2017, percentage of NOI from unencumbered assets continued to grow from 2016 as a result of strong property operations and our capital management strategy to prudently increase our unencumbered assets pool. Unencumbered assets to unsecured debt ratio declined to an extent over 2017 but well ahead of our 200% target. This was mainly because increase in our unsecured debt outpaced the increase in our unencumbered assets to an extent on relative percentage basis.

The FFO and ACFO payout ratios for Q1 2016 to Q3 2016 were lower than most of the comparable periods mainly due to \$88.3 million Target settlement in Q4 2015 FFO and that our FFO payout ratios are calculated on twelve month trailing basis. The 1.3% increase in ACFO payout ratio from Q4 2016 to Q1 2017 was partly due to the increase in weighted average units outstanding and partly due to no preferred unit redemption loss during the twelve month period ended March 31, 2017. The FFO and ACFO payout ratio decreases since Q1 2017 was due to growth in FFO and ACFO as noted above. The large 9.6% decrease in ACFO payout ratio from Q3 2017 to Q4 2017 was mostly due to a one-time \$29.2 million special distribution from equity accounted investments in Q4 2017 and higher working capital increases as noted above.

In consideration of the funds received as a result of the sale of our U.S. portfolio, management determined that an additional incentive for participants in the distribution reinvestment plan was no longer necessary. During the first quarter of 2016, we eliminated the 3.1% discount on the distribution reinvestment plan, which resulted in a subsequent decline in the participation rate. The distribution reinvestment plan's lower participation rate since Q2 2016 was the main cause of the lower than historical average quarterly increase in weighted average common units outstanding from Q4 2016 to Q3 2017. During Q4 2017, the Trust commenced the purchase and cancellation of its units pursuant to its NCIB which resulted in a decline in the weighted average common units outstanding relative to Q3 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited Consolidated Statements of Income

(In thousands of Canadian dollars, except per unit amounts)

Three months ended December 31,	2017	2016
Revenue		
Rental revenue	\$ 289,403	\$ 285,257
Property and asset management fees	3,823	2,968
Residential inventory sales	—	3,353
	293,226	291,578
Operating costs		
Rental operating costs		
Recoverable under tenant leases	100,110	101,058
Non-recoverable costs	5,353	5,233
Residential inventory cost of sales	—	4,550
	105,463	110,841
	187,763	180,737
Operating income		
Other income		
Interest income	1,950	1,657
Income from equity accounted investments	3,782	4,521
Fair value gain on investment properties, net	71,013	44,371
Investment and other income	11,979	6,762
	88,724	57,311
Other expenses		
Interest costs	42,389	43,464
General and administrative	18,123	14,000
Internal leasing costs	3,265	2,663
Transaction and other costs	4,295	2,449
	68,072	62,576
	208,415	175,472
Income before income taxes	208,415	175,472
Deferred income tax recovery	(1,320)	(3,000)
	209,735	178,472
Net income from continuing operations	\$ 209,735	\$ 178,472
Net loss from discontinued operations	(62)	(14,013)
	209,673	164,459
Net income	\$ 209,673	\$ 164,459
Net income attributable to		
Unitholders	\$ 209,673	\$ 164,459
Non-controlling interests	—	—
	\$ 209,673	\$ 164,459
Net income (loss) per unit - basic:		
From continuing operations	\$ 0.64	\$ 0.54
From discontinued operations	—	(0.04)
Net income per unit - basic	\$ 0.64	\$ 0.50
Net income (loss) per unit - diluted:		
From continuing operations	\$ 0.64	\$ 0.54
From discontinued operations	—	(0.04)
Net income per unit - diluted	\$ 0.64	\$ 0.50
Weighted average number of units (in thousands):		
Basic	326,040	326,466
Diluted	326,155	326,639

MANAGEMENT'S DISCUSSION AND ANALYSIS

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in note 3 of RioCan's 2017 Annual Consolidated Financial Statements. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates under different assumptions and conditions.

Our critical accounting judgments, estimates and assumptions relate to the following areas: fair value, the recognition and valuation of deferred tax assets and liabilities, capitalization of costs to investment property, determination of significant influence over equity investees, classification of disposal groups and discontinued operations and the determination of the type of lease where we are the lessor. Our critical accounting policies and estimates have been reviewed and approved by our Audit Committee, in consultation with senior management, as part of their review and approval of our significant accounting policies and judgments.

Fair value

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties, as opposed to a forced or liquidation sale, in an arm's length transaction under no compulsion to act.

Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question.

The Trust's financial statements are affected by the fair value-based method of accounting, the most significant areas of which are as follows:

- The determination of fair value of investment property is based upon, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect of tenant installation costs, capital expenditures and investment property operations. The Trust uses the direct capitalization method to fair value its income properties. Under this valuation method a capitalization rate is applied to normalized NOI to yield a fair value. RioCan has recently involved third party appraisers in its valuation process. For the year ended December 31, 2017, RioCan had 35 properties including 11 land parcels (year ended December 31, 2016 - 22 properties including 13 land parcels) valued by experienced valuation professionals having the required qualifications in property appraisals. Going forward, our plan is to select a sample of investment properties (approximately six each quarter) on a rotational basis for external appraisal. Refer to the *Asset Profile* section of this MD&A for further discussion of fair values of investment property.
- Unit based compensation expense is measured at fair value and expensed over the option vesting period, calculated using the Black-Scholes Model for unit option valuation and the Monte-Carlo simulation pricing model for the performance equity unit plan. For the year ended December 31, 2017, we recorded unit-based compensation expense of \$3.9 million (December 31, 2016 - \$6.7 million).
- IAS 39, Financial Instruments: Recognition and Measurement establishes the standard for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.
- At least annually, RioCan reports in its financial statements the fair value of its mortgages and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts that RioCan might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

The carrying cost of RioCan's mortgages and debentures payable at December 31, 2017 is \$5.0 billion. The Trust reported a \$4.9 billion fair value relating to these mortgages and debentures payable in note 24 to the 2017 Annual Consolidated Financial Statements.

Capitalization of costs to investment property

RioCan's accounting policies relating to investment properties are described in note 3(c) to the 2017 Annual Consolidated Financial Statements. In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and in distinguishing between tenant incentives and capital improvements.

Development costs for properties under development are capitalized in accordance with the accounting policy in note 3(c) to the 2017 Annual Consolidated Financial Statements. Initial capitalization of costs requires management's judgment in determining when the project commences with active development and identifying at which time a development property is substantially completed. This amount includes capitalized common area maintenance, property taxes and borrowing costs on both specific and general debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Leases - RioCan as a lessor

We make judgments in determining whether certain leases, in particular tenant leases where we are the lessor, are either operating or finance leases. RioCan has determined, based on an evaluation of terms and conditions of the lease arrangements, that the Trust retains all the significant risks and rewards of ownership of these properties and accounts for these arrangements as operating leases.

Income taxes

The Trust uses judgment to interpret tax rules and regulations and determining the appropriate rates and amounts in recording current and deferred income taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such difference will impact the income tax provision in the period in which such determination is made.

The recognition of deferred income tax assets and liabilities also requires significant judgment as the recognition is dependent on RioCan's projection of future taxable profits and tax rates that are expected to be in effect in the period the asset will be realized or the liability settled. Any changes to this projection will result in changes in the amount of deferred tax assets and liabilities on the consolidated balance sheets and the deferred tax expense in the consolidated statements of income.

Classification of assets and liabilities as held for sale and discontinued operations

Classification of assets or a disposal group as held for sale and discontinued operations requires judgment on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and whether the sale is highly probable.

Significant influence

When determining the appropriate basis of accounting for RioCan's investees, we make judgments about the degree of influence that RioCan exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

FUTURE CHANGES IN ACCOUNTING POLICIES

RioCan monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on RioCan's operations. Standards issued, but not yet effective, up to the date of issuance of the consolidated financial statements for the year ended December 31, 2017, are described below. This description is of standards and interpretations issued, which we reasonably expect to be applicable at a future date. We intend to adopt these standards when they become effective.

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

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Trust's assessment includes a review of relevant contracts for the following key areas which RioCan believes are in scope of IFRS 15 including, but not limited to, residential inventory sales, common area maintenance recoveries, and property and asset management fees. The Trust has assessed the impact of IFRS 15 and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact may be limited to additional note disclosure on the disaggregation of its revenue streams, specifically common area maintenance recoveries. The Trust intends to adopt the new standard on the required effective date on modified retrospective without restatement of prior period comparatives.

IFRS 9, Financial Instruments (IFRS 9)

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes new general hedge accounting guidance, which will align hedge accounting more closely with risk management. It does not completely change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses, rather than incurred losses as applied under the current standard. During 2017, the Trust performed an assessment of key areas within the scope of IFRS 9 which includes, but not limited to, the classification and measurement of mortgages and loans receivable and available-for-sale securities. The Trust intends to adopt the new standard on the required effective date of January 1, 2018 and will not restate comparative information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Classification and measurement

Quoted equity instruments currently held as available-for-sale financial assets with unrealized gains and losses recorded in OCI will, instead, be measured at fair value through profit or loss, which will increase volatility due to unrealized gains and losses being recorded in profit or loss. The AFS cumulative unrealized gain of \$68.7 million related to those securities, which is currently presented as accumulated OCI, will be reclassified to retained earnings upon adoption. The Trust does not expect a significant impact on its balance sheet or equity as a result of this change in classification and measurement.

The Trust is currently analyzing the contractual cash flow characteristics of the Trust's mortgage and loan receivables and assessing various business model considerations and will be in a position to conclude as at the first quarter of 2018.

IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard would be effective for the Trust's annual periods beginning on or after January 1, 2019, with early adoption permitted. To assess the impact of this new standard, RioCan has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on the Trust's Consolidated Financial Statements. RioCan does not expect a significant impact to the Trust's Consolidated Financial Statements on adoption of this IFRS. RioCan intends to adopt the standard effective January 1, 2019 without restatement of prior period comparatives.

IAS 40, Investment Property (IAS 40)

In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. RioCan will apply the amendments when they become effective prospectively, however, since the current policy and practice is in line with the clarifications issued, RioCan does not expect any impact to the Trust's Consolidated Financial Statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (DCP)

The CEO and CFO of the Trust have designed or caused to be designed under their direct supervision the Trust's DCP to provide reasonable assurance that: i) material information relating to the Trust is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Trust in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO are assisted in this responsibility by a Disclosure Committee, which is composed of RioCan senior management. The Disclosure Committee has established disclosure controls and procedures so that it becomes aware of any material information affecting RioCan in order to evaluate and communicate this information to management of the Trust, including the CEO and CFO, as appropriate and determine the appropriateness and timing of any required disclosure. It was determined, as at December 31, 2017, RioCan's DCP were adequate and effective.

Internal Controls over Financial Reporting (ICFR)

RioCan has established adequate ICFR to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Management, including RioCan's CEO and CFO has assessed or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's ICFR as at December 31, 2017 on the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, it was determined that, as at December 31, 2017, RioCan's ICFR were appropriately designed and were operating effectively based on the criteria established in the *Internal Control - Integrated Framework (2013)*.

There were no changes in the Trust's ICFR during the financial year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Trust's ICFR.

Inherent Limitations

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

Canadian REIT Status and Monitoring

RioCan currently qualifies for the REIT Exemption for purposes of the Income Tax Act (Canada). Accordingly, RioCan continues to be able to flow taxable income through to unitholders on a tax effective basis. Generally, to qualify for the REIT Exemption,

MANAGEMENT'S DISCUSSION AND ANALYSIS

RioCan's Canadian assets must be comprised primarily of real estate and substantially all of our Canadian source revenues must be derived from rental revenue, capital gains and fee income from properties in which we have an interest.

RioCan monitors its REIT Exemption status to ensure that we continue to qualify as a Canadian REIT. From time to time, the members of the Board of Trustees, Audit Committee and senior management are updated on RioCan's continued REIT Exemption qualification, including any significant legislation updates.

U.S. Income Tax Legislation

On December 18th, 2015, the House of Representatives passed new tax legislation known as the PATH Act, which makes significant changes to the U.S. federal income tax rules on foreign investment in U.S. real property (the Foreign Investment in Real Property Act or "FIRPTA") by certain "qualified shareholders". The impact of these proposed changes on our U.S. portfolio sale is that it may have the potential to reduce a qualifying foreign investor's withholding tax rate from 35% to 30% and other potential tax reductions. We are awaiting additional guidance from the Internal Revenue Service to determine whether the Trust can potentially benefit from the new tax legislation. There can be no assurance that we will benefit from any changes in the tax legislation related to FIRPTA.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into transactions with entities whose directors or trustees are also RioCan trustees and/or part of RioCan's senior management. All such transactions are in the normal course of operations and are measured at market-based exchange amounts.

Transactions subsequent to the formation of a co-ownership that are not contemplated by the co-ownership agreement are considered related party transactions for financial statement purposes.

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the Trust's activities, directly or indirectly.

The Trust's key management personnel include each of the Trustees and the following individuals: Chief Executive Officer, Edward Sonshine; President and Chief Operating Officer, Raghunath Davloor; and Senior Vice President and Chief Financial Officer, Qi Tang, effective June 8, 2017 (collectively, the Key Executives).

On June 8, 2017, RioCan announced the appointment of Qi Tang, Senior Vice President and Acting Chief Financial Officer, as the Senior Vice President and Chief Financial Officer of the Trust, effective June 8, 2017.

Remuneration of the Trust's Trustees and Key Executives during the year ended December 31, 2017 and 2016 is as follows:

Year ended December 31,	Trustees		Key Executives	
	2017	2016	2017	2016 (i)
Compensation and benefits	\$ 261	\$ 301	\$ 5,226	\$ 5,756
Unit-based payments	1,537	2,253	2,214	5,341
Post-employment benefit costs	—	—	36	57
	\$ 1,798	\$ 2,554	\$ 7,476	\$ 11,154

(i) Includes remuneration of Cynthia Devine, former Chief Financial Officer of the Trust.

During February 2016, RioCan's Chief Executive Officer (CEO), Edward Sonshine, agreed to commit to remain CEO of the Trust until December 31, 2018 and has agreed to use his best efforts to provide the Trust with 12 month's notice if he is interested in resigning or retiring.

For further details on related party transactions, refer to note 31 of our 2017 Annual Consolidated Financial Statements.

RISKS AND UNCERTAINTIES

The achievement of RioCan's objectives is, in part, dependent on the successful mitigation of business risks identified. Real estate investments are subject to a degree of risk. They are affected by various factors including changes in general economic and local market conditions, equity and credit markets, fluctuations in interest costs, the attractiveness of the properties to tenants, competition from other available space, the stability and credit-worthiness of tenants, and various other factors.

On June 17, 2015, RioCan amended its Declaration of Trust (the "Declaration") to further align the Declaration with evolving governance best practices, as further described in RioCan's Management Information Circular dated April 4, 2016. The rights granted in the amended Declaration are granted as contractual rights afforded to Unitholders (rather than as statutory rights). Similar to other existing rights contained in the Declaration (i.e. the take-over bid provisions and conflict of interest provisions), making these rights and remedies and certain procedures available by contract is structurally different from the manner in which the equivalent rights and remedies or procedures (including the procedure for enforcing such remedies) are made available to shareholders of a corporation, who benefit from those rights and remedies or procedures by the corporate statute that governs the corporation, such as the *Canada Business Corporations Act*. As such, there is no certainty how these rights, remedies or procedures may be treated by the courts in the non-corporate context or that a Unitholder will be able to enforce the rights and remedies in the manner contemplated by the proposed amendments. Furthermore, how the courts will treat these rights, remedies and procedures will be in the discretion of the court, and the courts may choose to not accept jurisdiction to consider any claim contemplated in the proposed provisions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Development Risk

Development risk arises from the possibility that completed developments will not be leased or that costs of development will exceed original estimates, resulting in an uneconomic return from the leasing of such space. RioCan also expects to be increasingly involved in mixed-use development projects that include residential condominiums and rental apartments. Purchaser demand for residential condominiums is cyclical and is affected by changes in general market and economic conditions, such as consumer confidence, employment levels, availability of financing for home buyers, interest rates, demographic trends, and housing demand. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by RioCan can fluctuate significantly as a result of changing economic and real estate market conditions.

RioCan's construction commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseen delays including municipal approvals; (ii) cost overruns; and (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional. Construction risks are minimized through the provisions of the Trust's Declaration, which have the effect of limiting direct and indirect investments in greenfield developments and development properties held for resale (each net of related mortgage debt and mezzanine financing to fund co-owners' share of such developments) to no more than 15% of total consolidated unitholders' equity of the Trust, as determined under IFRS. RioCan also seeks to undertake such developments with established developers. With some exceptions for land in the major markets, RioCan will generally not acquire or fund significant expenditures for undeveloped land unless it is zoned and an acceptable level of space has been pre-leased or pre-sold. An advantage of unenclosed, new format retail is that it lends itself to phased construction keyed to leasing levels, which reduces the creation of significant amounts of vacant but developed space. Further, RioCan uses a staggered approach in its development program to avoid unnecessary concentration of development projects in a single period of time so as to manage our development risk exposure and properly allocate our capital and personnel resources.

Liquidity and General Market Conditions

RioCan faces risks associated with general market conditions and their potential consequent effects. Current general market conditions may include, among other things, the insolvency of market participants, tightening lending standards and decreased availability of cash, and changes in unemployment levels, retail sales levels, and real estate values. These market conditions may affect occupancy levels and RioCan's ability to obtain credit on favourable terms or to conduct financings through the public market.

Ownership of Real Estate

Tenant Concentration

With respect to tenant concentration risk, in the event a given tenant, or group of tenants, experience financial difficulty and is unable to fulfill its lease commitments, a given geographical area suffers an economic decline, or the changing consumer/retail trends result in less demand for rental space, we could experience a decline in revenue.

RioCan strives to manage tenant concentration risk through geographical diversification and diversification of revenue sources in order to avoid dependence on any single tenant. RioCan's objective, as exemplified by the requirements of its Declaration noted above, is that no individual tenant contributes a significant percentage of its gross revenue and that a considerable portion of our revenue is earned from national and anchor tenants. RioCan attempts to lease to credit worthy tenants, will generally conduct credit assessments for new tenants and generally is provided security by the tenants as part of negotiated deals. RioCan attempts to reduce its risks associated with occupancy levels and lease renewal risk by having staggered lease maturities, negotiating leases with base terms between five and ten years, and by negotiating longer term leases with built-in minimum rent escalations where deemed appropriate.

In order to reduce RioCan's exposure to the risks relating to credit and the financial stability of tenants, the Trust's Declaration restricts the amount of space which can be leased to any person and that person's affiliates, other than in respect of leases with or guaranteed by the Government of Canada, a province of Canada, a municipality in Canada or any agency thereof and certain corporations, the securities of which meet stated investment criteria, to a maximum premises or space having an aggregate gross leasable area of 20% of the aggregate gross leasable area of all real property held by RioCan. At December 31, 2017, RioCan was in compliance with this restriction.

It is common practice for a major tenant, such as Canadian Tire or Loblaws/Shoppers Drug Mart, to lease space from other landlords similar to RioCan in addition to owning real estate either within a controlled publicly traded REIT or within its own operating entity. Past experience and industry practice has dictated that it is the strength of a location more than the ownership of the property that drives the business decisions of RioCan's tenants. Despite this, there may be instances where a tenant may forgo the competitive advantage of RioCan's property location in order to better utilize its own real estate, RioCan does not consider the collective impact of risk to be significant.

Tenant Bankruptcies

Several of RioCan's properties are anchored by large national tenants. The value of some of our properties, including any improvements thereto, could be adversely affected if these anchor stores or major tenants fail to comply with their contractual obligations, experience credit or financial instability or cease their operations.

Bankruptcy filings by retailers occur periodically in the course of normal operations for reasons, such as increased competition, Internet sales, changing population demographics, poor economic conditions, rising costs and changing shopping trends and/or perceptions. RioCan continually seeks to re-lease vacant spaces resulting from tenant terminations. The bankruptcy of a tenant, particularly an anchor tenant, may make it more difficult to lease the remainder of the affected properties or may give rise to certain rights under existing leases with other tenants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lease Renewals and Rental Increases

Growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies at rental rates similar to those paid by existing tenants in order for us to maintain our existing occupancy levels of our properties. It is possible that we may face a disproportionate amount of space expiring in any one period. Additionally, rental rates could decline, tenant bankruptcies could increase and tenant renewals may not be achieved, particularly in the event of a protracted disruption in the economy, such as a recession.

At December 31, 2017, RioCan had NLA, at its interest, of 44,099,000 square feet and a portfolio economic occupancy rate of 95.6%. Based on our current annualized portfolio weighted average rental revenue of approximately \$26 per square foot, for every fluctuation in occupancy by a differential of 1%, our operations would be impacted by approximately \$11.4 million annually.

RioCan's aggregate rentals expiring over the next five years is \$424 million based on current contractual rental rates. If the leases associated with these expiring rents are renewed upon maturity at an aggregate rental rate differential of 100 basis points, our net income would be impacted by approximately \$4.2 million annually.

Some of our retail lease agreements include co-tenancy clauses which allow the tenant to pay a reduced rent amount and, in certain instances, terminate the lease, if RioCan fails to maintain certain occupancy levels or retain certain anchor tenancies. In addition, certain of our tenants have the ability to terminate their leases prior to the lease expiration date if their sales do not meet agreed upon thresholds. If occupancy, tenancy or sales fall below certain thresholds, rents that we are entitled to receive from tenants could be reduced.

Ontario Rent Control Legislation

In May 2017, the Ontario government introduced legislation that expands the limits on annual residential rent increases to all rental properties, including newly constructed units, instead of just units constructed prior to 1991. The impact of the new legislation on RioCan's residential development program is to be further assessed and observed in terms of broader market reactions. The legislation could impact the Trust's certain mixed-use development projects' future NOI growth potential, and thus, there can be no assurance that all of our proposed residential projects as described herein would be undertaken, and if so, with what mix of residential and commercial development and at what costs. There could also be changes to the mix of condominium versus residential rental units or air rights sales for certain projects.

Financial and Liquidity Risk

Access to capital

A risk to the Trust's growth program and the refinancing of its debt upon maturity is that of not having sufficient debt and equity capital available to RioCan. Given the relatively small size of the Canadian marketplace, there are a limited number of lenders from which RioCan can borrow. RioCan's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing.

As at December 31, 2017, RioCan's total indebtedness had a 3.32 year weighted average term to maturity bearing interest at a weighted average contractual interest rate of 3.37% per annum.

Interest rate and financing risk

The terms of RioCan's credit agreements require the Trust to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios, adequate insurance coverage and certain credit ratings. These covenants may limit our flexibility in conducting our operations and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness.

RioCan's operations are also impacted by interest rates, as interest expense represents a significant cost in the ownership of real estate investments. We seek to reduce our 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. As at December 31, 2017, 17.1% of our total debt was at floating interest rates on RioCan's proportionate basis.

From time to time, the Trust may enter into floating-for-fixed interest rate swaps as part of its strategy for managing interest rate risk. As at December 31, 2017, the carrying value of our floating rate debt, not subject to a hedging strategy, is \$1.0 billion. A 50 basis point increase in market interest rates would result in a \$4.9 million decrease in our net income.

Joint Ventures and Co-ownerships

RioCan participates in joint ventures, partnerships and similar arrangements that may involve risks and uncertainties not present absent third-party involvement, including, but not limited to, RioCan's dependency on partners, co-tenants or co-venturers that are not under our control and that might compete with RioCan for opportunities, become bankrupt or otherwise fail to fund their share of required capital contributions, or suffer reputational damage that could have an adverse impact on the Trust. Additionally, our partners might at any time have economic or other business interests or goals that are different than or inconsistent with those of the Trust, and we may be required to take actions that are in the interest of the partners collectively, but not in RioCan's sole best interests. Accordingly, we may not be able to favourably resolve issues with respect to such decisions, or we could become engaged in a dispute with any of them that might affect our ability to operate the business or assets in question.

Relative Illiquidity of Real Property

Real estate investments are relatively illiquid as a large proportion of RioCan's capital is invested in physical assets which can be difficult to sell, especially if local market conditions are poor. A lack of liquidity could limit our ability to sell components of the

MANAGEMENT'S DISCUSSION AND ANALYSIS

portfolio promptly in response to changing economic or investment conditions. If RioCan were required to quickly liquidate its assets, there is a risk that we would realize sale proceeds of less than the current book value of our real estate investments.

As well, certain significant expenditures involved in real property investments, such as property taxes, maintenance costs and mortgage payments, represent obligations that must be met regardless of whether the property is producing sufficient, or any, revenue.

Unexpected Costs or Liabilities Related to Acquisitions

A risk associated with a real property acquisition is that there may be an undisclosed or unknown liability concerning the acquired properties, and RioCan may not be indemnified for some or all of these liabilities. Following an acquisition, RioCan may discover that it has acquired undisclosed liabilities, which may be material.

RioCan conducts what it believes to be an appropriate level of investigation in connection with its acquisition of properties and seeks through contract to ensure that risks lie with the appropriate party.

Environmental Matters

Environmental and ecological related policies have become increasingly important in recent years. Under various federal, provincial, state and municipal laws, RioCan, as an owner or operator of real property, could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, or address such matters through alternative measures prescribed by the governing authority, may adversely affect RioCan's ability to sell such real estate or to borrow using such real estate as collateral, and could, potentially, also result in claims against the Trust. RioCan is not currently aware of any material non-compliance, liability or other claim in connection with any of its properties, nor is RioCan currently aware of any environmental condition with respect to any properties that it believes would involve material expenditures by the Trust.

It is our policy to obtain a Phase I environmental audit conducted by a qualified environmental consultant prior to acquiring any additional property. In addition, where appropriate, tenant leases generally specify that the tenant will conduct its business in accordance with environmental regulations and be responsible for any liabilities arising out of infractions to such regulations. It is RioCan's practice to regularly inspect tenant premises that may be subject to environmental risk. We maintain insurance to cover a sudden and/or accidental environmental mishap.

Litigation

RioCan's operations are subject to a wide variety of laws and regulations across all of its operating jurisdictions and RioCan faces risks associated with legal and regulatory changes and litigation. In the normal course of operations, RioCan becomes involved in various legal actions, including claims relating to personal injury, property damage, property taxes, land rights, and contractual and other commercial disputes. The final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and the resolution of such actions may have an adverse effect on our financial position or results of operations.

RioCan retains external legal consultants to assist it in remaining current and compliant with legal and regulatory changes and to respond to litigation.

Key Personnel

RioCan's executive and other senior officers have a significant role in our success and oversee the execution of RioCan's strategy. Our ability to retain our management team or attract suitable replacements should any members of the management group leave is dependent on, among other things, the competitive nature of the employment market. RioCan has experienced departures of key professionals in the past and may do so in the future, and we cannot predict the impact that any such departures will have on its ability to achieve its objectives. The loss of services from key members of the management team or a limitation in their availability could adversely impact our financial condition and cash flow.

We rely on the services of key personnel on our executive team, including its Chief Executive Officer, Edward Sonshine, our President and Chief Operating Officer, Raghunath Davloor and our Senior Vice President and Chief Financial Officer, Qi Tang and the loss of their services could have an adverse effect on RioCan. We mitigate key personnel risk through succession planning, but do not maintain key personnel insurance.

Unitholder Liability

There is a risk that RioCan's unitholders could become subject to liability. The Trust's Declaration provides that no unitholder or annuitant under a plan of which a unitholder acts as trustee or carrier will be held to have any personal liability as such, and that no resort shall be had to the private property of any unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of RioCan. Only RioCan's assets are intended to be subject to levy or execution. The Declaration further provides that, whenever possible, certain written instruments signed by RioCan must contain a provision to the effect that such obligation will not be binding upon unitholders personally or upon any annuitant under a plan of which a unitholder acts as trustee or carrier. In conducting its affairs, RioCan has acquired and may acquire real property investments subject to existing contractual obligations, including obligations under mortgages and leases that do not include such provisions. RioCan will use its best efforts to ensure that provisions disclaiming personal liability are included in contractual obligations related to properties acquired, and leases entered into, in the future.

Certain provinces have legislation relating to unitholder liability protection, including British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. To RioCan's knowledge, certain of these statutes have not yet been judicially considered and it is possible that reliance on such statute by a unitholder could be successfully challenged on jurisdictional or other grounds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Income Taxes

RioCan currently qualifies as a mutual fund trust and for the REIT Exemption for income tax purposes. RioCan expects to distribute the Trust's taxable income to unitholders such that it will not be subject to tax. From time to time, RioCan may retain some taxable income and net capital gains in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. In order to maintain RioCan's current mutual fund trust status, the Trust is required to comply with specific restrictions regarding its activities and the investments held by the Trust. If the Trust was to cease to qualify as a mutual fund trust, or for the REIT Exemption for income tax purposes, the consequences could be material and adverse.

No assurance can be given that the provisions of the *Income Tax Act (Canada)* regarding mutual fund trusts and the REIT Exemption will not be changed in a manner that adversely affects RioCan and its unitholders. From year to year, there is a risk that the taxable allocation to unitholders can change depending upon the Trust's activities.

Foreign Currency Risk

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. As a result of the Trust's disposal of its U.S. property portfolio in 2016 and the associated repayment of U.S. denominated debt, RioCan has significantly reduced its foreign exchange risk.

Credit Ratings

Real or anticipated changes in credit ratings on our debentures or preferred units may affect the market value thereof. In addition, real or anticipated change in credit ratings can affect the cost at which we can access the debenture or preferred unit market, as applicable.

RioCan
AUDITED ANNUAL
CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

Audited Annual
Consolidated Financial Statements

102	Management's Responsibility for Financial Reporting
103	Independent Auditors' Report
104	Consolidated Balance Sheets
105	Consolidated Statements of Income
106	Consolidated Statements of Comprehensive Income
107	Consolidated Statements of Changes in Equity
108	Consolidated Statements of Cash Flows
109	Notes to Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of RioCan Real Estate Investment Trust (RioCan) is responsible for the preparation and fair presentation of the accompanying annual consolidated financial statements and Management's Discussion and Analysis (MD&A). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements and information in the MD&A necessarily include amounts based on best estimates and judgments by management of the expected effects of current events and transactions with the appropriate consideration to materiality. In addition, in preparing this financial information, we must make determinations about 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 our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the integrity and fairness of the annual consolidated financial statements and MD&A and for the accounting systems from which they are derived, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing consolidated financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded against unauthorized use or disposition.

As at December 31, 2017, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of independent trustees. This committee reviews RioCan's annual consolidated financial statements and MD&A with both management and the independent auditors before such statements are approved by the Board of Trustees. Other key responsibilities of the Audit Committee include selecting RioCan's auditors, approving the consolidated financial statements and MD&A, and monitoring RioCan's existing systems of internal controls.

Ernst & Young LLP, independent auditors appointed by the unitholders of RioCan upon the recommendation of the Board of Trustees, have examined our 2017 and 2016 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the unitholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audits and related matters.

Edward Sonshine, O. Ont., Q.C.
Chief Executive Officer

Qi Tang
Senior Vice President and Chief Financial Officer

Toronto, Canada
February 13, 2018

INDEPENDENT AUDITORS' REPORT

To the Unitholders of RioCan Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of RioCan Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RioCan Real Estate Investment Trust as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2018

RIOCAN REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Note	December 31, 2017	December 31, 2016
Assets			
Investment properties	5	\$ 13,160,244	\$ 13,287,038
Deferred tax assets	10	11,929	11,609
Equity accounted investments	6	176,256	185,278
Mortgages and loans receivable	7	145,873	118,017
Residential inventory	8	132,003	48,414
Assets held for sale	4	410,178	60,530
Receivables and other assets	9	269,870	408,508
Cash and cash equivalents		70,225	54,366
Total assets		\$ 14,376,578	\$ 14,173,760
Liabilities			
Debentures payable	13	\$ 2,694,619	\$ 2,248,024
Mortgages payable	12	2,300,247	2,699,935
Lines of credit and other bank loans	11	904,429	705,633
Liabilities associated with assets held for sale	4	32,670	—
Accounts payable and other liabilities	14	399,927	510,280
Total liabilities		\$ 6,331,892	\$ 6,163,872
Equity			
Unitholders' equity:			
Preferred	15	\$ —	\$ 144,755
Common	15	8,044,686	7,865,133
Total equity		8,044,686	8,009,888
Total liabilities and equity		\$ 14,376,578	\$ 14,173,760

The accompanying notes are an integral part of the consolidated financial statements.

RIOCAN REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31,	Note	2017	2016
Revenue			
Rental revenue	18	\$ 1,140,665	\$ 1,103,884
Property and asset management fees		14,554	13,186
Residential inventory sales		—	16,262
		1,155,219	1,133,332
Operating costs			
Rental operating costs			
Recoverable under tenant leases		399,580	397,776
Non-recoverable costs		18,270	19,684
Residential inventory cost of sales		—	16,188
		417,850	433,648
		737,369	699,684
Operating income			
Other income			
Interest income		7,586	5,744
Income from equity accounted investments	6	15,719	9,972
Fair value gains on investment properties, net		136,942	182,888
Investment and other income	19	57,014	33,268
		217,261	231,872
Other expenses			
Interest costs	20	171,418	179,527
General and administrative	21	52,560	52,220
Internal leasing costs		10,882	10,931
Transaction and other costs	22	11,825	9,577
		246,685	252,255
		707,945	679,301
Income before income taxes			
Deferred income tax recovery		(320)	(3,850)
		708,265	683,151
Net income from continuing operations			
Net income from discontinued operations	4	7,021	147,687
		715,286	830,838
Net income			
Net income attributable to:			
Unitholders		\$ 715,286	\$ 830,747
Non-controlling interests		—	91
		\$ 715,286	\$ 830,838
Net income per unit - basic:			
From continuing operations	23	\$ 2.16	\$ 2.06
From discontinued operations	23	0.02	0.45
Net income per unit - basic		\$ 2.18	\$ 2.51
Net income per unit - diluted:			
From continuing operations	23	\$ 2.16	\$ 2.06
From discontinued operations	23	0.02	0.45
Net income per unit - diluted		\$ 2.18	\$ 2.51
Weighted average number of units (in thousands):			
Basic	23	326,805	325,386
Diluted	23	326,929	325,665

The accompanying notes are an integral part of the consolidated financial statements.

RIOCAN REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

Years ended December 31,	Note	2017	2016
Net income		\$ 715,286	\$ 830,838
Other comprehensive income (loss):			
Items that may be reclassified subsequently to income, net of tax:			
Translation of foreign operations:			
Unrealized loss during the year		—	(53,391)
Reclassified during the year to income		—	(254,989)
Interest rate swap agreements:			
Unrealized gain during the year	15	12,901	16,125
Reclassified during the year to income	15	—	(2,697)
Unrealized gain (loss) on cross-currency interest rate swap agreements	15	(74)	74
Available-for-sale investment:			
Unrealized gain during the year	15	35,698	51,408
Reclassified during the year to income	15	(45,981)	(14,040)
Items that are not to be reclassified to net income, net of tax:			
Actuarial (loss) gain on pension plan	15	(984)	693
Other comprehensive income (loss), net of tax		1,560	(256,817)
Comprehensive income, net of tax		\$ 716,846	\$ 574,021
Comprehensive income, net of tax attributable to:			
Unitholders		\$ 716,846	\$ 573,930
Non-controlling interests		—	91

The accompanying notes are an integral part of the consolidated financial statements.

RIOCAN REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of Canadian dollars)

	Note	Preferred equity	Common trust units	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total unitholders' equity	Non-controlling interests	Total equity
Balance, December 31, 2015		\$ 265,451	\$ 4,684,194	\$ 24,971	\$ 2,626,789	\$ 324,634	\$ 7,926,039	\$ 782	\$ 7,926,821
Changes during the year:									
Net income		—	—	—	830,747	—	830,747	91	830,838
Other comprehensive loss	15	—	—	—	—	(256,817)	(256,817)	—	(256,817)
Units issued	15	—	100,334	—	—	—	100,334	—	100,334
Unit-based compensation awards	15	—	—	1,640	—	—	1,640	—	1,640
Unit option exercises	15	—	3,992	(3,992)	—	—	—	—	—
Unit redemptions		(125,000)	—	—	—	—	(125,000)	(782)	(125,782)
Preferred trust unit issue costs		4,304	—	—	(4,304)	—	—	—	—
Distributions to unitholders	17	—	—	—	(467,055)	—	(467,055)	(91)	(467,146)
Balance, December 31, 2016		\$ 144,755	\$ 4,788,520	\$ 22,619	\$ 2,986,177	\$ 67,817	\$ 8,009,888	\$ —	\$ 8,009,888

	Note	Preferred equity	Common trust units	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total unitholders' equity	Non-controlling interests	Total equity
Balance, December 31, 2016		\$ 144,755	\$ 4,788,520	\$ 22,619	\$ 2,986,177	\$ 67,817	\$ 8,009,888	\$ —	\$ 8,009,888
Changes during the year:									
Net income		—	—	—	715,286	—	715,286	—	715,286
Other comprehensive income	15	—	—	—	—	1,560	1,560	—	1,560
Units issued	15	—	26,411	—	—	—	26,411	—	26,411
Units purchased and cancelled	15	—	(57,870)	—	(41,705)	—	(99,575)	—	(99,575)
Unit-based compensation awards	15	—	—	4,757	—	—	4,757	—	4,757
Unit option exercises	15	—	10	(10)	—	—	—	—	—
Unit redemptions	15	(149,500)	—	—	—	—	(149,500)	—	(149,500)
Preferred trust unit issue costs	15	4,745	—	—	(4,745)	—	—	—	—
Distributions to unitholders	17	—	—	—	(464,141)	—	(464,141)	—	(464,141)
Balance, December 31, 2017		\$ —	\$ 4,757,071	\$ 27,366	\$ 3,190,872	\$ 69,377	\$ 8,044,686	\$ —	\$ 8,044,686

The accompanying notes are an integral part of the consolidated financial statements.

RIOCAN REAL ESTATE INVESTMENT TRUST CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

Years ended December 31,	Note	2017	2016
Operating activities			
Net income from:			
Continuing operations		\$ 708,265	\$ 683,151
Discontinued operations	4	7,021	147,687
Net income		715,286	830,838
Items not affecting cash:			
Depreciation and amortization	21	9,865	4,398
Amortization of straight-line rent		(7,806)	(8,006)
Unit-based compensation expense	15	4,757	1,640
Income from equity accounted investments	6	(15,719)	(9,972)
Fair value gains on investment properties, net	5	(136,942)	(199,787)
Deferred income taxes recovery		(320)	(234,525)
Transaction gains, net on disposition of:			
Available-for-sale securities		(45,981)	(14,040)
Canadian investment properties		(971)	(6,075)
U.S. investment properties		—	(65,116)
Adjustments for other changes in working capital items	30	(168,141)	125,741
Cash provided by operating activities		354,028	425,096
Investing activities			
Acquisitions of investment property		(46,137)	(556,203)
Construction expenditures on properties under development		(312,237)	(249,429)
Capital expenditures on income properties:			
Recoverable and non-recoverable costs		(33,683)	(46,780)
Tenant improvements and external leasing commissions		(35,500)	(47,593)
Proceeds from sale of investment properties		381,579	2,042,829
Earn-outs on investment properties		(1,567)	(7,022)
Contributions to equity accounted investments	6	(18,475)	(26,750)
Distributions received from equity accounted investments	6	44,415	11,196
Advances of mortgages and loans receivable		(60,396)	(3,894)
Repayments of mortgages and loans receivable		14,221	25,301
Proceeds from sale of available-for-sale securities, net of selling costs		153,696	51,974
Cash provided by investing activities		85,916	1,193,629
Financing activities			
Proceeds from mortgage financing, net of issue costs		334,875	204,281
Repayments of mortgage principal		(719,719)	(1,599,076)
Advances from bank credit lines, net of issue costs		563,198	1,145,752
Repayment of bank credit lines		(362,265)	(1,154,814)
Proceeds from issuance of debentures, net of issue costs	13	596,948	248,669
Repayment of unsecured debentures	13	(150,000)	—
Distributions to common trust unitholders, net of distributions reinvested	29	(435,671)	(397,143)
Distributions to preferred trust unitholders	17	(3,514)	(8,667)
Distributions paid to non-controlling interests		—	(91)
Units repurchased under normal course issuer bid		(99,575)	—
Return of capital to non-controlling interests		—	(782)
Proceeds received from issuance of common units, net		1,138	39,194
Redemption of preferred units		(149,500)	(125,000)
Cash used in financing activities		(424,085)	(1,647,677)
Net change in cash and cash equivalents		15,859	(28,952)
Cash and cash equivalents, beginning of year		54,366	83,318
Cash and cash equivalents, end of year		\$ 70,225	\$ 54,366
Supplemental cash flow information	29		

The accompanying notes are an integral part of the consolidated financial statements.

RioCan

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Audited – Canadian dollars, tabular amounts
in millions, except per unit amounts or unless
otherwise noted)

FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

To facilitate a better understanding of RioCan Real Estate Investment Trust's consolidated financial statements, significant accounting policies and related disclosures, a listing of all the notes is provided below:

TABLE OF CONTENTS

Notes to Consolidated Financial Statements

1. General Information	110	19. Investment and Other Income	136
2. Basis of Preparation and Statement of Compliance	110	20. Interest Costs	136
3. Significant Accounting Policies	112	21. General and Administrative	136
4. Assets Held for Sale and Discontinued Operations	120	22. Transaction and Other Costs	136
5. Investment Properties	122	23. Net Income per Unit	137
6. Equity Accounted Investments	126	24. Fair Value Measurement	137
7. Mortgages and Loans Receivable	127	25. Risk Management	138
8. Residential Inventory	128	26. Capital Management	139
9. Receivables and Other Assets	128	27. Operating Leases	141
10. Income Taxes	129	28. Subsidiaries	142
11. Lines of Credit and Other Bank Loans	129	29. Supplemental Cash Flow Information	142
12. Mortgages Payable	130	30. Changes in Other Working Capital Items	143
13. Debentures Payable	130	31. Related Party Transactions	143
14. Accounts Payable and Other Liabilities	132	32. Employee Benefits	143
15. Unitholders' Equity	132	33. Segmented Information	144
16. Unit-based Compensation Plans	133	34. Contingencies and Other Commitments	144
17. Distributions to Unitholders	135	35. Events after the Balance Sheet Date	145
18. Rental Revenue	136		

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

1. GENERAL INFORMATION

RioCan Real Estate Investment Trust and its consolidated subsidiaries (collectively, the Trust or RioCan) own, develop and operate Canada's largest portfolio of retail focused, increasingly mixed-use properties. The parent trust, RioCan Real Estate Investment Trust, is an unincorporated closed-end trust governed under the laws of the Province of Ontario, Canada, and constituted pursuant to a Declaration of Trust dated November 30, 1993, as most recently amended and restated on June 17, 2015. The Trust's corporate headquarters and registered head office are located at the RioCan Yonge Eglinton Centre, 2300 Yonge Street, Toronto, Ontario, Canada.

RioCan's common trust units (units) are listed on the Toronto Stock Exchange (TSX) under the ticker symbols REI.UN.

These consolidated financial statements were authorized for issue by Board of Trustees on February 13, 2018.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

(a) Statement of compliance

RioCan's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Basis of presentation

These consolidated financial statements are prepared on a going concern basis using the historical cost method modified to include the fair value measurement of investment property and certain financial instruments, as set out in the relevant accounting policies. The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity. RioCan considers this presentation to be more relevant than a classified balance sheet as the Trust considers its operating cycle to be longer than one year. The notes to the consolidated financial statements distinguish between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within one year from the reporting period, and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than a year from the reporting period. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3. Certain comparative amounts have been reclassified to conform to the current year's presentation.

(c) Principles of consolidation

These consolidated financial statements include the accounts of the parent trust, RioCan Real Estate Investment Trust, and its subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

(i) Subsidiaries

Subsidiaries are entities over which the Trust has control. Control is achieved when RioCan is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. The Trust reassesses whether or not it controls an investee based on current facts and circumstances.

All subsidiaries are consolidated from the date RioCan obtains control and continue to be consolidated until the date that such control ceases. When RioCan does not own all of the equity in a consolidated subsidiary, the non-controlling equity interest is presented as a separate component of total equity on the consolidated balance sheets. The net income attributable to non-controlling interests is separately disclosed in the Trust's consolidated statements of income.

(ii) Associates and joint ventures

Associates are entities over which RioCan has significant influence but not control or joint control, generally accompanying an ownership between 20% to 50% of the voting rights, although other factors such as the ability to impact key operating decisions could also indicate significant influence.

Joint ventures are entities over which the Trust has joint control and whereby the parties that share joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by RioCan's share of the post-acquisition results of operations and changes in the net assets of the associate or joint venture. The financial statements of RioCan's associates and joint ventures are prepared for the same reporting period as the Trust and where necessary, adjustments are made to bring the accounting policies of such entities in line with those of the Trust.

(iii) Joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. RioCan records only its share of the assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the consolidated balance sheets, consolidated statements of income and consolidated statements of comprehensive income.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

(d) Significant judgments

The preparation of RioCan's consolidated financial statements requires management to make significant judgments that affect the carrying amounts of assets and liabilities, and the reported amounts of revenues and expenses. In the process of applying RioCan's accounting policies, management was required to apply judgment in the areas discussed below.

Investment properties

RioCan's accounting policies relating to investment properties are described in note 3(c). In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and in distinguishing between tenant incentives and capital improvements.

Development properties

Development costs for properties under development are capitalized in accordance with the accounting policy in note 3(c). Initial capitalization of costs requires management's judgment in determining when the project commences with active development and identifying at which time a development property is substantially completed. This amount includes capitalized common area maintenance, property taxes and borrowing costs on both specific and general debt.

Leases - RioCan as a lessor

The Trust makes judgments in determining whether certain leases, in particular tenant leases where the Trust is the lessor, are either operating or finance leases. RioCan has determined, based on an evaluation of terms and conditions of the lease arrangements, that the Trust retains all the significant risks and rewards of ownership of these properties and accounts for these arrangements as operating leases.

Income taxes

The Trust uses judgment to interpret tax rules and regulations and determining the appropriate rates and amounts in recording current and deferred income taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such difference will impact the income tax provision in the period in which such determination is made.

The recognition of deferred income tax assets and liabilities also requires significant judgment as the recognition is dependent on RioCan's projection of future taxable profits and tax rates that are expected to be in effect in the period the asset will be realized or the liability settled. Any changes to this projection will result in changes in the amount of deferred tax assets and liabilities on the consolidated balance sheets and the deferred tax expense in the consolidated statements of income.

Classification of assets and liabilities as held for sale and discontinued operations

Classification of assets or a disposal group as held for sale and discontinued operations requires judgment on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and whether the sale is highly probable.

Significant influence

When determining the appropriate basis of accounting for RioCan's investees, the Trust makes judgments about the degree of influence that RioCan exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

(e) Use of estimates and assumptions

The preparation of RioCan's consolidated financial statements requires management to make estimates and assumptions that have a significant risk of causing a material adjustment to the reported amounts of assets, liabilities, net income and related disclosures over the following reporting period. Estimates made by management are based on events and circumstances that existed at the consolidated balance sheet date. Accordingly, actual results may differ from these estimates.

Investment properties

Estimates and assumptions used in determining fair value of the Trust's investment properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates) used in the direct capitalization income approach. A change to any of these inputs could significantly alter the fair value of an investment property.

Unit-based compensation

RioCan uses estimates and assumptions when determining the unit-based compensation expense during a reporting period. The determination of the unit-based compensation expense resulting from the Trust's granting of employee unit options and performance equity unit awards depends on valuation models, which by their nature are subject to measurement uncertainty. The valuation method used to measure the fair value for each unit option awarded by RioCan is the Black-Scholes option pricing model. This model requires the use of assumptions, such as expected stock price volatility and the use of historical data, that may not be reflective of future performance. The valuation method used to measure the fair value for each performance equity unit awarded by RioCan is the Monte Carlo simulation model, which requires the use of similar input assumptions.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies (and any changes thereto) used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

Change in accounting policy

IAS 7 Statement of Cash Flows (IAS 7)

On January 1, 2017, the Trust adopted an amendment to IAS 7 which requires specific disclosures for movements in certain liabilities on the statement of cash flows. This amendment did not result in a material impact to these consolidated financial statements.

Significant accounting policies

(a) Business combinations

At the time of acquisition of property, whether through a controlling share investment or directly, the Trust 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. More specifically, consideration is made of the extent to which significant processes are acquired. If no significant processes, or only insignificant processes, are acquired, the acquisition is treated as an asset acquisition rather than a business combination.

The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The Trust recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income. The difference between the purchase price and the Trust's net fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition, the purchaser records positive goodwill as an asset. Negative goodwill is immediately recognized in the consolidated statements of income. Goodwill is not amortized and must be tested for impairment at least annually, or more frequently, if events or changes in circumstances indicate that impairment has occurred.

RioCan expenses transaction costs associated with business combinations in the period incurred.

When an acquisition does not meet the criteria for a business, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated to the assets and liabilities acquired based upon their relative fair values. No goodwill is recognized for asset acquisitions.

(b) Fair value measurement

The Trust measures certain financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each consolidated balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by incorporating all factors that market participants would consider in setting a price acting in their economic best interests, including commonly accepted valuation approaches. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability that is accessible by RioCan.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its "highest and best use" or by selling it to another market participant that would use the asset in its highest and best use.

The Trust uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated 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.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

For the purpose of fair value disclosures, RioCan has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(c) Investment properties

Investment properties are held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity.

Real estate property held under an operating lease is not classified as investment property. Instead, these leases are accounted for in accordance with IAS 17, *Leases*. Certain land leases held under an operating lease, however, are classified as investment property when the definition of an investment property is met. At the inception of these leases, investment property is recognized at the lower of the fair value of the property and the present value of the future minimum lease payments and an equivalent amount is recognized as a lease obligation.

(i) Income properties

Income properties are initially measured at cost. Subsequent to initial recognition, income properties are recorded at fair value and related gains or losses arising from changes in fair value are recognized in net income in the period of change. The determination of fair value is based on, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect of tenant installation costs, income property operations and capital expenditures.

(ii) Properties under development

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises the amount of cash, or the fair value of other consideration, paid to acquire the property, including transaction costs. Subsequent to the acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes and borrowing costs on both specific and general debt. Direct and indirect borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin, and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received, whether or not the space is leased. If RioCan 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 of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Interest capitalized is calculated using the Trust's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing.

Properties under development are also adjusted to fair value at each consolidated balance sheet date with fair value adjustments recognized in net income.

(d) Residential inventory

Residential inventory is assets acquired or developed that RioCan has no intention of using for rental income purposes and plans to sell in the ordinary course of business. The Trust expects to earn a return on such assets through a combination of property operating income earned during the holding period and sales proceeds. Residential inventory is recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which RioCan determines using the estimated selling price in the ordinary course of business, less estimated selling costs and development costs to complete.

Residential inventory is reviewed for impairment at each reporting period date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

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

(e) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

(i) *Rental revenue*

Base rent

The Trust has not transferred substantially all of the benefits and risks of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries. Revenue recognition under a lease commences when the tenant has the right to use the leased asset, which is typically when the tenant takes possession of, or controls, the physical use of the leased property. Generally, this occurs on the lease commencement date. When RioCan 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 such additions.

Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease where it is determined that the tenant fixturing has no benefit to RioCan beyond the existing tenancy.

Straight-line rent

Certain leases contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due. RioCan records the total rental income on a straight-line basis over the full term of the lease, including the tenant fixturing period. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing.

Percentage rent

Percentage rent is typically calculated based on a percentage of tenant sales over a specified threshold, which is in addition to base rent. Percentage rents are recognized once the specified threshold has been achieved in accordance with each tenant lease.

Lease cancellation fees

Amounts payable by tenants to terminate their lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the effective date of the lease termination.

(ii) *Residential inventory*

Income earned from the sale of residential inventory is recognized when all of the following conditions are met: a) the Trust has transferred to the purchaser the significant risks and rewards of ownership; b) income and costs can be reliably measured; c) the purchaser has made a substantial commitment demonstrating its intent to honour its obligation; and d) collection of any additional consideration is reasonably assured.

Income from residential land sales, the sale of homes and residential condominium projects is recorded at the time that the risks and rewards of ownership have been transferred and collectibility of all proceeds is reasonably assured, which is generally when possession or title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received.

Directly attributable selling and disposition costs are expensed as incurred.

(iii) *Property and asset management fees*

RioCan has interests in various investment properties through joint arrangements and investments in associates. The Trust provides asset and property management services to co-owners, partners and third parties for which it earns market-based construction, development, financing and arranging fees.

Fees are recognized as the service or contract activity is performed using the percentage of completion method. Under the percentage of completion method, where services are provided over a specific period of time, revenue is recognized on a straight-line basis unless there is evidence that some other method would better reflect the pattern of performance. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

(iv) *Interest income*

Revenue is recognized as interest accrues using the effective interest method.

(v) *Other income*

Transaction gains and losses

Transaction gains and losses are recognized on the settlement date and represent the excess proceeds of disposition relating to subsidiaries, investments or assets over their carrying values in the case of gains and the excess carrying value of assets over proceeds of disposition in the case of transaction losses. Transaction gains and losses may also arise from the settlement of liabilities for more or less than their carrying values.

Available-for-sale investments

Other income also includes dividends and/or distributions arising on available-for-sale investments, which are recorded when the Trust's right to receive payment has been established, which is generally when the dividends and/or distributions are declared payable.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

(f) Unit-based compensation

RioCan and its subsidiaries issue unit-based equity-settled awards to certain employees. The cost of these unit-based payments equals the fair value of each tranche of options at their grant date. The cost of the unit options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

RioCan has unit-based cash-settled compensation plans for independent trustees and certain employees. The cost of these unit-based payments is measured at fair value and expensed over the vesting period with the recognition of a corresponding liability. The liability is remeasured at fair value at each reporting period date with the vested changes in fair value recorded in consolidated statements of income.

(g) Financial assets and financial liabilities

Financial assets include RioCan's contractual rents receivable, mortgages and loans receivable, cash and cash equivalents, funds held in trust, available-for-sale securities and derivative contracts. Financial liabilities include RioCan's secured operating lines of credit, mortgages payable, debentures payable and accounts payable and certain other liabilities.

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument without modification or on a valuation technique using market based inputs. The fair values of mortgages and loans receivable and debentures are based on the current market conditions for instruments with similar terms and risks. The fair values of term mortgages, designated hedging derivative instruments included in receivables and other assets and accounts payable and certain other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

(h) Recognition and measurement of financial instruments

The Trust determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, held to maturity, loans and receivables, available-for-sale or other liabilities.

(i) Held-for-trading

Financial assets and financial liabilities classified as held for trading are measured at fair value with gains and losses recognized in net income. Transaction costs are expensed as incurred. Other than cash and cash equivalents, the Trust has no significant financial instruments classified as held for trading.

Derivative instruments are recorded on the consolidated balance sheets at fair value. Changes in the fair values of derivative instruments are required to be recognized in net income, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationship is required to be recognized in OCI. See note 2(l) for further discussion of hedge accounting policies.

(ii) Held to maturity, loans and receivables

Financial assets classified as held to maturity, loans and receivables and other liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability. Amortized cost is computed using the effective interest method less any allowance for impairment. Gains and losses are recognized in net income when the loans and receivables are derecognized or impaired, as well as through amortization.

The principal categories of the Trust's financial assets and liabilities measured at amortized cost using the effective interest method include: (a) accounts receivable and payable; (b) mortgages and loans receivable, mortgages payable and mortgages payable associated with assets held for sale; and (c) debentures payable.

Loans and receivables are financial instruments with fixed or determinable payments that are not quoted in an active market. Financial instruments with fixed or determinable payments and fixed maturities are classified as held to maturity only when the Trust has the positive intention and ability to hold it to maturity.

(iii) Available for sale

Available for sale financial assets are financial assets that are not categorized as either held for trading or designated at fair value. Available-for-sale financial assets are initially measured at fair value with direct transaction costs included in the carrying value of the asset. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in OCI until the investment is derecognized or impaired, at which time the cumulative unrealized gain or loss is recognized in net income.

Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

(i) Impairment of financial assets

The Trust assesses at each consolidated balance sheet date whether there is any objective evidence of impairment for each financial asset (or a group of financial assets). A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing financial difficulty, which may include default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears payments or economic conditions that correlate with defaults.

(i) Impairment of loans and receivables

Loans and receivables are considered impaired when there is objective evidence that the full carrying amount of the loan or receivable is not collectible.

When an impaired loan is identified, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. This difference between the carrying amount and the estimated realizable value of the loan or receivable represents an impairment loss that is recognized in net income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the loan. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to RioCan. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the loan or receivable. If a past write-off is later recovered, the recovery is recognized in net income.

(ii) Impairment of available-for-sale financial assets

For available-for-sale financial assets, the Trust assesses at each consolidated balance sheet date whether there is objective evidence that an asset is impaired, which would include a significant or prolonged decline in the fair value of the investment below its cost. If the evaluation indicates that there is objective evidence of impairment, the investment is written down to its current fair value and a loss is recognized in net income. Subsequent increases in the fair value of available-for-sale assets are recognized in OCI.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded in interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through net income.

(j) Financial guarantee contracts

Financial guarantee contracts are contracts issued by RioCan that contingently require the Trust to make specified payments to reimburse the holder for a loss it incurs because the specified debtor fails to make payment when due in accordance with the terms of a debt instrument. When a debtor default occurs, financial guarantees are recognized on the consolidated balance sheets initially as a liability measured at the fair value of the obligation undertaken in issuing the guarantee, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of (i) the amount initially recognized and (ii) the best estimate of the expenditure required to settle the present obligation at the consolidated balance sheet date.

(k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amounts are reported in the consolidated balance sheets if there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(l) Hedges

From time to time, the Trust may enter into foreign currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as fair value hedges, cash flow hedges or hedges of a foreign currency exposure related to the net investment in a foreign operation.

At the inception of a hedging relationship, RioCan formally designates and documents the hedging relationship to which the Trust is applying hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Trust will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. In a cash flow hedging relationship, the effective portion of the gain or loss on the hedging instrument is recognized in OCI. The ineffective portion is recognized in net income.

Hedge accounting ceases when the Trust revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy); or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity until the forecast transaction is ultimately recognized in the consolidated statements of income. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is immediately recognized in the consolidated statements of income.

Net investment hedges

In hedging a foreign currency exposure of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses on the hedging instrument is recognized in OCI and the ineffective portion is recognized in net income. The amounts, or a portion thereof, previously recorded in OCI within equity are recognized in net income on the disposal or partial disposal of the foreign operation.

(m) Comprehensive income

Comprehensive income comprises net income and OCI, which generally would include unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation adjustments (net of hedging) arising from foreign operations, changes in the fair value of the effective portion of cash flow hedging instruments, and actuarial gains and losses related to RioCan's defined benefit pension plans. The Trust reports consolidated statements of comprehensive income comprising net income and OCI for the year.

(n) Income taxes

Upon qualifying as a "real estate investment trust" ("REIT Exemption") for Canadian income tax purposes in 2010, the Trust is considered, in substance, tax exempt and therefore does not account for income taxes. Prior to qualifying for the REIT Exemption, the Trust was considered taxable. Upon the Trust's change in tax status, all deferred taxes of the Trust were reversed through net income or OCI based upon where the amounts initially arose. The Trust's U.S. operations are qualifying U.S. REITs up to May 25, 2016 and are not subject to U.S. corporate income taxes. The Trust is subject to 30% or 35% withholding taxes on its distributions to Canada. The Trust consolidates certain wholly owned incorporated entities that continue to be subject to income taxes. These taxable subsidiaries, and the Trust prior to its change in tax status, account for income taxes as follows:

(i) Current income taxes

The Trust qualifies as a mutual fund trust and for the REIT Exemption for income tax purposes. The Trust intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. From time to time, RioCan may retain some taxable income and net capital gains in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. Accordingly, a provision for current income taxes payable is not required, except for amounts incurred in its incorporated Canadian taxable subsidiaries.

The Trust's U.S. subsidiary qualifies as a REIT for U.S. income tax purposes up to May 25, 2016. The subsidiary has distributed all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. The Trust is subject to a 30% or 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded as distributions or income tax expense, depending on whether the tax is passed on to unitholders.

(ii) Deferred income taxes

Deferred income taxes are provided using the liability method for temporary differences at the consolidated balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

1. Where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable income or loss; and
2. In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, where RioCan is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized except:

1. Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

2. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to undistributed profits in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet dates and reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income taxes relating to temporary differences that are in equity are recognized in equity.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity related to the same taxation authority are offset.

(o) Equipment and leasehold improvements

Equipment and leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment in value, if any. Depreciation is recorded on a straight-line basis over the following expected useful lives:

Computer hardware	3 to 5 years
Furniture and equipment	5 years
Management information systems	5 to 10 years
Leasehold improvements	Lease term plus first renewal, if renewal is reasonably assured

(p) Intangible assets

The Trust's intangible assets comprise its management information systems and computer application software that is initially recognized at cost and amortized over its estimated useful life (5 to 10 years) on a straight-line basis. The cost of self-built management information systems and software includes the cost of materials, direct labour, and interest expense. Capitalization ceases and depreciation commences once the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments with original maturities from the date of acquisition for three months or less.

(r) Provisions

Provisions are recognized when the Trust has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Trust expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in net income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(s) Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Trust.

Assets and liabilities of operations having a functional currency other than the Canadian dollars are translated at the rate of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at average rates for the year, unless exchange rates fluctuated significantly during the year, in which case the exchange rates at the dates of the transaction are used. Gains or losses on translating a foreign operation are included in OCI as a component of equity.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign currency denominated monetary assets and liabilities are translated using the prevailing rate of exchange at the consolidated balance sheet dates. Gains and losses on translation of monetary items are recognized in the consolidated statements of income in general and administrative expenses, except for those related to monetary liabilities qualifying as hedges of the Trust's investment in foreign operations or certain intercompany loans to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI as a component of equity.

(t) Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on the Trust's consolidated balance sheets.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

These measurement requirements do not apply to non-current assets, including the Trust's properties held for sale, that are accounted for in accordance with the fair value model in IAS 40. Comparative information is not adjusted to reflect the held for sale classification in the consolidated balance sheet for the latest period presented.

A disposal group is classified as a discontinued operation if it meets the following conditions: (i) it is a component that can be distinguished operationally and financially from the rest of the Trust's operations and (ii) it represents either a separate major line of business or geographic area or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Disposal groups classified as discontinued operations are presented separately from continuing operations in the consolidated statements of income. The comparative consolidated statement of income is presented as if the operation had been discontinued from the start of the comparative year.

(u) Employee future benefits

The Trust operates a defined contribution pension plan and three defined benefit pension plans for certain employees.

The cost of providing benefits under the defined benefit plans is determined separately for each plan. Actuarial gains and losses for the defined benefit plans are recognized in OCI, in full, in the period in which they occur and are not reclassified to profit or loss in subsequent periods. The past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on non-callable investment grade fixed income securities), less unamortized past service costs and less the fair value of plan assets out of which the obligations are to be settled.

The Trust expenses its required contributions to the defined contribution pension plan.

(v) Future changes in accounting policies

RioCan monitors the potential changes proposed by the IASB and analyses the effect that changes in the standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below. This description is of the standards and interpretations issued that the Trust reasonably expects to be applicable at a future date. The Trust intends to adopt these standards when they become effective.

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

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Trust's assessment includes a review of relevant contracts for the following key areas which RioCan believes are in scope of IFRS 15 including, but not limited to, residential inventory sales, common area maintenance recoveries, and property and asset management fees. The Trust has assessed the impact of IFRS 15 and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact may be limited to additional note disclosure on the disaggregation of its revenue streams, specifically common area maintenance recoveries. The Trust intends to adopt the new standard on the required effective date on modified retrospective without restatement of prior period comparatives.

IFRS 9, Financial Instruments (IFRS 9)

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes new general hedge accounting guidance, which will align hedge accounting more closely with risk management. It does not completely change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses, rather than incurred losses as applied under the current standard. During 2017, the Trust performed an assessment of key areas within the scope of IFRS 9 which includes, but not limited to, the classification and measurement of mortgages and loans receivable and available-for-sale securities. The Trust intends to adopt the new standard on the required effective date of January 1, 2018 and will not restate comparative information.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Classification and measurement

Quoted equity instruments currently held as available-for-sale financial assets with unrealized gains and losses recorded in OCI will, instead, be measured at fair value through profit or loss, which will increase volatility due to unrealized gains and losses being recorded in profit or loss. The AFS cumulative unrealized gain of \$68.7 million related to those securities, which is currently presented as accumulated OCI, will be reclassified to retained earnings upon adoption. The Trust does not expect a significant impact on its balance sheet or equity as a result of this change in classification and measurement.

The Trust is currently analyzing the contractual cash flow characteristics of the Trust's mortgage and loan receivables and assessing various business model considerations and will be in a position to conclude as at the first quarter of 2018.

IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard would be effective for the Trust's annual periods beginning on or after January 1, 2019, with early adoption permitted. To assess the impact of this new standard, RioCan has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on the Trust's Consolidated Financial Statements. RioCan does not expect a significant impact to the Trust's Consolidated Financial Statements on adoption of this IFRS. RioCan intends to adopt the standard effective January 1, 2019 without restatement of prior period comparatives.

IAS 40, Investment Property (IAS 40)

In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. RioCan will apply the amendments when they become effective prospectively, however, since the current policy and practice is in line with the clarifications issued, RioCan does not expect any impact to the Trust's Consolidated Financial Statements.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Discontinued operations

On May 24, 2016, RioCan completed the sale of its U.S. portfolio of 49 retail properties located in the Northeastern U.S. and Texas at a total sale price of US\$1.9 billion.

The results of the Trust's discontinued operations are as follows:

Year ended December 31,	2017	2016
Rental revenue	\$ —	\$ 98,704
Rental operating costs		
Recoverable under tenant leases	—	51,995
Non-recoverable costs	—	3,175
	—	55,170
Operating income	—	43,534
Other income		
Fair value gains on investment property, net	—	16,899
Other income	2,560	66,404
	2,560	83,303
Other expenses		
Interest costs	—	18,927
General and administrative expenses (recoveries)	(1,041)	1,491
Internal leasing costs	—	706
Transaction costs (recoveries)	(549)	53,562
	(1,590)	74,686
Income before income taxes	4,150	52,151
Income tax expense (recovery)		
Current	(2,871)	135,139
Deferred	—	(230,675)
Net income from discontinued operations	\$ 7,021	\$ 147,687

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Other income

For 2017, other income includes a partial reversal of provisions based on receivable collections, and favourable post-closing working capital adjustments related to RioCan's disposed U.S. property portfolio.

Transaction costs

Included in transaction costs is the partial reversal of an accrual connected with a settlement of a legal dispute with a former tenant located in the U.S.

Income taxes

For the year ended December 31 2017, RioCan's current income tax expense (recovery) includes the impact of foreign exchange translation.

Cash flows associated with discontinued operations

The net cash flows associated with discontinued operations are as follows:

Years ended December 31,	2017	2016
Net income from discontinued operations	\$ 7,021	\$ 147,687
Adjustments for non-cash items:		
Deferred income taxes	—	(230,675)
Fair value gains on investment properties, net	—	(16,899)
Net gain on sale of income properties	—	(65,116)
Adjustments for net changes in operating assets and liabilities	(6,069)	110,083
Net operating cash flow activities	952	(54,920)
Proceeds from the sale of income properties	—	1,951,312
Other	—	(4,776)
Net investing cash flow activities	—	1,946,536
Repayment of mortgages payable	—	(668,253)
Repayment of parent REIT loan	—	(566,433)
Loan advances from parent REIT	—	(672,119)
Other	—	—
Net financing cash flow activities	—	(1,906,805)
Net change in cash	\$ 952	\$ (15,189)

Properties held for sale

Presented below are details of the Trust's properties held for sale from continuing operations:

As at	December 31, 2017	December 31, 2016
Assets		
Income properties	\$ 371,299	\$ 25,341
Properties under development	38,879	35,189
Total assets held for sale	\$ 410,178	\$ 60,530
Liabilities		
Mortgages payable	32,670	—
Total liabilities held for sale	\$ 32,670	\$ —
Net assets	\$ 377,508	\$ 60,530

As at December 31, 2017, RioCan, pursuant to its plan to accelerate its portfolio focus in Canada's six major markets through the sale of approximately 100 investment properties located primarily in secondary markets across Canada, has eight income properties held for sale, with an aggregate carrying value of \$371.3 million and mortgage payable of \$32.7 million.

As at December 31, 2017, RioCan has four development property land parcels held for sale with an aggregate carrying value of \$38.9 million.

RIOCAN REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

5. INVESTMENT PROPERTIES

As at December 31,	2017		2016	
Income properties	\$	12,075,939	\$	12,406,719
Properties under development		1,084,305		880,319
	\$	13,160,244	\$	13,287,038

Year ended December 31, 2017	Income properties		Properties under development		Total
Balance, beginning of year	\$	12,432,060	\$	915,508	\$ 13,347,568
Acquisitions		16,484		63,933	80,417
Dispositions		(294,820)		(88,127)	(382,947)
Development expenditures		—		324,596	324,596
Addition to properties held under a lease		9,232		—	9,232
Capital expenditures:					
Recoverable and non-recoverable expenditures		26,208		—	26,208
Leasing commissions and tenant improvements		31,446		—	31,446
Transfers, net (i)		107,598		(107,598)	—
Transfers to residential inventory (ii)		—		(16,174)	(16,174)
Fair value gains, net		109,505		27,437	136,942
Straight-line rent (iii)		7,806		—	7,806
Earn-out consideration		1,719		3,609	5,328
Balance, end of year	\$	12,447,238	\$	1,123,184	\$ 13,570,422
Investment properties	\$	12,075,939	\$	1,084,305	\$ 13,160,244
Properties held for sale		371,299		38,879	410,178
	\$	12,447,238	\$	1,123,184	\$ 13,570,422

- (i) During the year ended December 31, 2017, transfers to income properties from properties under development totalled \$220.1 million reflecting completed developments. Transfers from income properties to properties under development totalled \$112.5 million reflecting the commencement of active development on certain income properties during the period.
- (ii) During the year ended December 31, 2017, RioCan announced changing the residential rental component of the King Portland Centre to condominium units. In addition, the costs associated with the Windfields Farm residential development were transferred to residential inventory upon formation of the joint venture with Tribute to develop townhomes. As such, a portion of the fair value of these properties have been transferred to residential inventory.
- (iii) Included in investment properties is \$108.2 million of net rents receivable arising from the recognition of rental revenue on a straight-line basis over the lease term (December 31, 2016 - \$104.6 million).

Year ended December 31, 2016	Income properties		Properties under development		Total
Balance, beginning of year	\$	11,451,096	\$	872,202	\$ 12,323,298
Acquisitions		594,538		10,043	604,581
Dispositions		(119,813)		(5,436)	(125,249)
Development expenditures		—		243,243	243,243
Capital expenditures:					
Recoverable and non-recoverable expenditures		52,899		—	52,899
Leasing commissions and tenant improvements		48,261		—	48,261
Transfers, net		253,121		(253,121)	—
Fair value gains, net		134,692		48,196	182,888
Straight-line rent (i)		7,263		—	7,263
Earn-out consideration		7,380		—	7,380
Other changes		2,623		381	3,004
Balance, end of year	\$	12,432,060	\$	915,508	\$ 13,347,568
Investment properties	\$	12,406,719	\$	880,319	\$ 13,287,038
Properties held for sale		25,341		35,189	60,530
	\$	12,432,060	\$	915,508	\$ 13,347,568

- (i) Included in investment properties is \$104.6 million of net rents receivable arising from the recognition of rental revenue on a straight-line basis over the lease term.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Acquisitions

The following table summarizes the Trust's acquisitions of properties:

As at December 31,	Income properties		Properties under development	
	2017	2016	2017	2016
Properties acquired during the year:				
Investment properties	\$ 16,484	\$ 594,538	\$ 63,933	\$ 10,043
Residential inventory properties	—	—	36,870	—
Total consideration	16,484	594,538	100,803	10,043
Loan receivable payment	—	—	(28,467)	—
Debt assumed	(8,631)	(48,416)	(13,406)	—
Difference between contractual amount and fair value of debt assumed	—	(757)	—	—
Total consideration, net of related debt and loan receivable	\$ 7,853	\$ 545,365	\$ 58,930	\$ 10,043
Total consideration, net of related debt and loan receivable allocated to:				
Investment properties	7,853	545,365	39,280	10,043
Residential inventory properties	—	—	19,650	—
Total	\$ 7,853	\$ 545,365	\$ 58,930	\$ 10,043

Income Properties Acquisitions

During the year ended December 31, 2017, RioCan acquired the remaining 20% interest in a co-owned income property for \$16.5 million and assumed a related \$8.6 million mortgage.

Properties Under Development Acquisitions

During August and September 2017, RioCan acquired a 75% ownership interest in properties located in the Yorkville area of Toronto, Ontario, with the intention of rezoning and developing a high-rise residential condominium building with rental replacement units and commercial components. The total consideration of these properties, including transaction costs was \$67.5 million, which was paid by \$35.9 million in cash, \$28.5 million repayment of loan receivable, and \$3.1 million assumption of debt. After the sale by RioCan on October 12, 2017 of a 25% interest in the project to Capital Developments (CD) at a sale price of \$21.7 million, including certain cost recoveries, RioCan owns a 50% ownership interest in the properties at a total consideration of \$45.8 million including transaction costs, which was recorded to the following items on the consolidated balance sheet: \$36.9 million as residential development inventory, representing RioCan's 50% interest in the planned high-rise condominium component of the property and \$8.9 million classified as properties under development.

On October 5, 2017, RioCan acquired a 10% undivided interest in WNUF 2's interest in the commercial component of The Well for a purchase price, including transaction costs, of \$23.0 million including a \$10.3 million assumption of debt. As a result of this transaction, RioCan owns an undivided 50% interest in the commercial component of the project.

Also, RioCan and its partner Hudson Bay Company have secured a surrender agreement with Sears Canada Inc. for its location at RioCan Oakville Place, in Oakville, Ontario, for a fee of \$2.0 million. In addition, at Garden City Shopping Centre in Winnipeg, Manitoba, RioCan and its partner Bayfield Realty Advisors acquired the freehold interest in the Sears location for a purchase price of \$2.4 million. The remaining acquisitions which occurred during the year ended December 31, 2017 totalled \$8.0 million and consisted of parkland dedication sites.

Purchase Obligations

On July 5, 2017, RioCan entered into an agreement to purchase from its partners the remaining 50% interest in the rental residential tower of its landmark mixed-use, transit oriented project at the northeast corner of Yonge Street and Eglinton Avenue, also known as ePlace. The purchase price for the remaining interest in the rental residential tower is estimated to be in the range of \$95 to \$105 million upon closing estimated in the first quarter of 2019, subject to final costs incurred.

Also, the Trust has an agreement to acquire the remaining 50% interest in the retail component of the ePlace, from its partners at a purchase price based on a 7% capitalization rate on the stabilized net operating income upon completion in 2019.

The Trust has also agreed to purchase the partners' interest in the retail portion of the Yorkville project upon completion at a 6% capitalization rate.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Dispositions

The following table summarizes the Trust's dispositions of investment property:

	Income properties		Properties under development	
	2017	2016	2017	2016
As at December 31,				
Investment properties disposed	\$ 294,820	\$ 119,813	\$ 88,127	\$ 5,436
Gain on disposition recorded in other income	—	6,075	—	—
Total consideration	\$ 294,820	\$ 125,888	\$ 88,127	\$ 5,436
Mortgages associated with investment property dispositions	—	(29,359)	(1,024)	—
Vendor-take-back mortgages receivables on dispositions	(2,500)	—	—	—
Total consideration, net of related debt	\$ 292,320	\$ 96,529	\$ 87,103	\$ 5,436

Income Properties Dispositions

On June 29, 2017 RioCan completed the sale of its Cambie Street property in Vancouver, British Columbia, for a sale price of \$94.2 million at a capitalization rate of 3.29%. On August 3, 2017, the Trust completed the sale of a portfolio of six chartered bank branches located in British Columbia at a sale price of \$30.3 million, at a capitalization rate of 3.72%. There was no debt associated with either disposition.

During the year ended December 31, 2017, the Trust entered into a firm agreement with CT REIT to sell seven properties for a total sale proceed of \$200 million at a weighted average capitalization rate of 6.12%. These seven properties were all anchored by a Canadian Tire banner and formed part of the first major sale transaction announced pursuant to the Trust's plan to accelerate its portfolio focus in Canada's six major markets through the sale of approximately 100 investment properties located primarily in secondary markets across Canada.

On December 18, 2017, RioCan closed the sale of five income properties for a total sale price of \$135.2 million, with the sale of the remaining two properties expected to be completed in 2018.

Properties Under Development Dispositions

During the year ended December 31, 2017, RioCan completed nine development property dispositions aggregating \$88.1 million. These dispositions were comprised of the disposal to CD pertaining to the Yorkville project at a sale price of \$21.7 million, including certain cost recoveries and \$52.6 million from selling interests in existing properties pursuant to the formation of five 50/50 joint ventures. The remaining proceeds were from the sale of excess lands.

Properties held under a lease

Included in investment properties are four properties that are subject to operating leases with third parties. Two of the leases expire in 2029 and do not include buy-out options, whereas the third lease expires in 2020 and carries a buy-out option. The remaining operating lease expires in 2035 and does not include a buy-out option.

In accordance with IFRS, the Trust has elected to recognize these operating leases as investment properties and record a related finance lease obligation. The carrying amount of these properties is \$273.8 million (December 31, 2016 - \$274.1 million) and the corresponding finance lease obligation is \$21.5 million (December 31, 2016 - \$18.7 million) and is included in accounts payable and other liabilities.

Future minimum lease payments under these operating leases are as follows:

	December 31, 2017	December 31, 2016
Within twelve months	\$ 2,532	\$ 2,232
Two to five years	9,342	8,461
Over five years	17,506	15,057
Total minimum lease payments	\$ 29,380	\$ 25,750
Less: Future interest costs	7,855	7,097
Present value of minimum lease payments	\$ 21,525	\$ 18,653

Valuation methodology

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation.

Investment properties and properties held for sale are carried at fair value and the Trust uses significant unobservable inputs to estimate fair value of these assets at each reporting date. See below for further description of inputs used by the Trust in estimating the fair value of its properties. Significant unobservable inputs are classified as Level 3 inputs under IFRS. See note 24 for further details.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, judgment is required to estimate fair value based on the best information available, including prices for similar assets and the use of other valuation techniques. These valuation techniques are consistent with the objective of measuring fair value and involve a degree of estimation depending on the availability of market-based information.

Valuation processes

Internal valuations

RioCan measures the vast majority of its investment properties, including co-owned properties, using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of the Trust's management. The internal valuation team's processes and results are reviewed and approved by the Valuations Committee on a quarterly basis, in line with the Trust's quarterly reporting dates.

The Trust's Valuations Committee is responsible for approving any fair value changes to the investment properties and consists of senior management of the Trust including the President & Chief Operating Officer; Chief Financial Officer; and other executive members.

External valuations

Depending on the property asset type and location, management may opt to obtain independent third party valuations from firms that employ experienced valuation professionals having the required qualifications in property appraisals for purposes of adopting such appraised values in the case of land parcels or assessing the reasonableness of its internal investment property valuations. During the year, the Trust obtained a total of 35 external property appraisals (including 11 vacant land parcels), which supported an IFRS fair value of approximately \$3.0 billion or 22% of the Trust's investment property portfolio as at December 31, 2017.

The internal valuation team also verifies all major inputs used by the external valuator in preparing the valuation report, assesses changes to fair value by comparing the current year fair value against the fair value determined in the prior year valuation report, and holds discussions with the external valuator. In 2018, the Trust intends to select approximately six income properties for external appraisal on a quarterly basis.

Valuation techniques

Income properties

The internal valuation team estimates the fair value of each income property based on a valuation technique known as the direct capitalization income approach. The fair value is determined by applying a capitalization rate to stabilized net operating income (SNOI). The significant unobservable inputs are based on:

- SNOI - is based on budgeted rents and expenses and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted to incorporate allowances for estimated vacancy rates, management fees and structural reserves for capital expenditures based on current and expected future market conditions after expiry of any current lease and expected maintenance costs. The resulting capitalized value is then adjusted for non-recoverable capital expenditures as well as other costs inherent in achieving and maintaining SNOI.
- The capitalization rate - is based on the location and quality of the properties and takes into account market data at the valuation date.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the long-term vacancy rate. Each of these inputs when increased or decreased, in isolation, would not result in a material change in the fair value of the Trust's investment properties. As a result, management does not consider these variables as key inputs in estimating the fair value of income property.

Properties under development

Management uses an internal valuation process to estimate the fair value of properties under development that consist of undeveloped land on a land value per acre basis using the particular attributes of the project with respect to zoning and pre-development work performed on the site. Where a site is partially developed, the direct capitalization method is applied to capitalize the pro forma NOI, stabilized with market allowances, from which the costs to complete the development are deducted. The significant unobservable inputs are based on:

- Pro forma SNOI - is based on the location, type and quality of the properties and supported by the terms of actual or anticipated future leases, other contracts or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on expected future market conditions and estimated maintenance costs, which are consistent with internal budgets, based on management's experience and knowledge of the market conditions.
- Costs to complete - are derived from internal budgets based on management's experience and knowledge of the market conditions.

The primary method of valuation for land acquired for development is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets. Land values are estimated using either a per acre or per buildable square foot basis based on highest and best use. Such values are applied to RioCan's properties after adjusting for factors specific to the site, including its location, intended use, zoning, servicing and configuration.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The table below summarizes the classification, valuation approach and inter-relationship between the Level 3 key unobservable inputs and fair value measurements for the Trust's investment properties:

Classification	Valuation approach	Key unobservable input	Relationship between key unobservable inputs and fair value measurement
Income producing properties / Properties under development	Direct capitalization income approach	Capitalization rate	There is an inverse relationship between the capitalization rate and the fair value; in other words, the higher the capitalization rate, the lower the estimated value.
		SNOI	Generally, an increase in SNOI will result in an increase in the estimated fair value of the properties.
Properties under development - undeveloped land	Comparable sales approach	Market comparison	Land value is in line with market trends.

As at December 31, 2017, the weighted average capitalization rate for the Trust's investment properties and properties held for sale is 5.56% (December 31, 2016 - 5.64%).

Sensitivity analysis of changes in capitalization rates

The following table is a sensitivity applied to the portion of the Trust's investment properties and properties held for sale carrying value that is measured using the direct capitalization approach and, therefore, is sensitive to changes in capitalization rates:

Capitalization rate sensitivity increase (decrease)	Weighted average capitalization rate	Fair value of properties	Fair value variance	% change	Ratio of total debt to total assets (net of cash and cash equivalents)
(1.00%)	4.56%	16,137,281	2,902,390	21.93 %	34.1%
(0.75%)	4.81%	15,298,545	2,063,654	15.59 %	35.8%
(0.50%)	5.06%	14,542,688	1,307,797	9.88 %	37.5%
(0.25%)	5.31%	13,858,004	623,113	4.71 %	39.3%
December 31, 2017	5.56% \$	13,234,891 \$	—	— %	41.0%
0.25%	5.81%	12,665,404	(569,487)	(4.30)%	42.7%
0.50%	6.06%	12,142,904	(1,091,987)	(8.25)%	44.4%
0.75%	6.31%	11,661,807	(1,573,084)	(11.89)%	46.0%
1.00%	6.56%	11,217,378	(2,017,513)	(15.24)%	47.7%

Sensitivity analysis of changes in stabilized net operating income (SNOI) and capitalization rates

In addition, a 1% increase in SNOI would result in a higher portfolio fair value of \$132.4 million. A 1% decrease in SNOI would result in a lower portfolio fair value of \$132.4 million. A 1% increase in SNOI coupled with a 0.25% decrease in capitalization rates would result in a higher portfolio fair value of \$761.7 million. A 1% decrease in SNOI coupled with a 0.25% increase in capitalization rates would result in a lower portfolio fair value of \$696.1 million.

6. EQUITY ACCOUNTED INVESTMENTS

The Trust has certain equity method accounted investments in associates and joint ventures. The following table details the Trust's ownership interest in each equity investee:

As at December 31,		2017	2016
Equity Investee	Principal activity		
Dawson-Yonge LP	Owns and operates an income property	40.0%	40.0%
RioCan-HBC JV	Owns and operates income properties	12.0%	11.6%
WhiteCastle New Urban Fund, LP (WNUF 1)		14.2%	14.2%
WhiteCastle New Urban Fund 2, LP (WNUF 2)	Development and sale of residential inventory	19.3%	19.3%
WhiteCastle New Urban Fund 3, LP (WNUF 3)		20.0%	20.0%
WhiteCastle New Urban Fund 4, LP (WNUF 4)		18.3%	—%

WNUF 4

On September 8, 2017, RioCan committed up to \$42 million in capital contributions in consideration for an approximate 18.3% limited partner interest in WNUF 4. Amounts to be funded are callable by the general partner at any point prior to the expiration of the investment period on September 15, 2027. As at December 31, 2017, RioCan has contributed cash of \$0.4 million to the fund.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The following table shows the changes in the aggregate carrying value of RioCan's investment in associates and joint ventures:

Years ended December 31,		2017	2016
Balance, beginning of year	\$	185,278	\$ 158,994
Contributions		18,475	26,750
Share of net income		15,719	9,972
Distributions		(44,415)	(11,196)
Other		1,199	758
Balance, end of year	\$	176,256	\$ 185,278

Financial results of equity accounted investees

The following tables present the financial results of RioCan's equity accounted investees on a 100% basis:

As at December 31,	2017			2016		
	RioCan-HBC JV	Other	Total	RioCan-HBC JV	Other	Total
Current assets	\$ 10,045	\$ 215,272	\$ 225,317	\$ 9,067	\$ 105,298	\$ 114,365
Non-current assets	2,003,865	22,530	2,026,395	1,980,330	22,100	2,002,430
Current liabilities	12,747	14,434	27,181	10,675	4,586	15,261
Non-current liabilities (i)	782,892	58,419	841,311	546,114	52,291	598,405
Net assets	\$ 1,218,271	\$ 164,949	\$ 1,383,220	\$ 1,432,608	\$ 70,521	\$ 1,503,129
Equity accounted investments	\$ 147,897	\$ 28,359	\$ 176,256	\$ 167,581	\$ 17,697	\$ 185,278

Year ended December 31,	2017			2016		
	RioCan-HBC JV	Other	Total	RioCan-HBC JV	Other	Total
Revenue	\$ 129,766	\$ 47,293	\$ 177,059	\$ 131,653	\$ 12,637	\$ 144,290
Operating expenses	11,387	6,906	18,293	10,643	5,657	16,300
Fair value gains (losses)	(3,722)	403	(3,319)	(11,825)	907	(10,918)
Interest expense	18,386	459	18,845	15,999	455	16,454
Net income	\$ 96,271	\$ 40,331	\$ 136,602	\$ 93,186	\$ 7,432	\$ 100,618
Income (loss) from equity accounted investments	\$ 11,347	\$ 4,372	\$ 15,719	\$ 10,391	\$ (419)(ii)	\$ 9,972

(i) Includes mortgages payable and lines of credit.

(ii) 2016 amount reflects a \$1.5 million priority profit allocation to the general partner of the investees.

7. MORTGAGES AND LOANS RECEIVABLE

As at December 31,	2017	2016
Current	\$ 33,214	\$ 28,263
Non-current	112,659	89,754
	\$ 145,873	\$ 118,017

As at December 31, 2017, mortgages and loans receivable bear interest at a weighted average effective and contractual rate of 5.4% per annum (December 31, 2016 - 5.0%) and mature between 2018 and 2023.

Future repayments for the years ending December 31 are as follows:

Due on demand	\$ 7,077
2018	26,137
2019	11,395
2020	40,651
2021	49,232
2022	—
Thereafter	11,381
	\$ 145,873

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

8. RESIDENTIAL INVENTORY

The following table shows the changes in the aggregate carrying value of RioCan's residential inventory:

Years ended December 31,	2017		2016	
Balance, beginning of year	\$	48,414	\$	45,276
Acquisitions (i)		36,870		—
Development expenditures		30,545		3,138
Transfers from investment properties (ii)		16,174		—
Balance, end of year	\$	132,003	\$	48,414

- (i) Represents the carrying value of properties acquired and located in the Yorkville area of Toronto, Ontario, with the intention of rezoning and developing a high-rise residential condominium building. Refer to note 5 for further details.
- (ii) During the year ended December 31, 2017, RioCan announced changing the residential rental component of the King Portland Centre to condominium units. In addition, the costs associated with the Windfields Farm residential development were transferred to residential inventory upon formation of the joint venture with Tribute to develop townhomes. Refer to note 5 for further details.

9. RECEIVABLES AND OTHER ASSETS

The following table details the Trust's receivables and other assets as at December 31, 2017 and December 31, 2016:

As at December 31,	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Prepaid expenses and other assets	\$ 205,835	\$ 14,975	\$ 220,810	\$ 332,387	\$ 10,376	\$ 342,763
Net contractual rents receivable	18,569	—	18,569	40,754	—	40,754
Management information system	—	13,532	13,532	—	21,737	21,737
Interest rate swaps agreements	—	5,101	5,101	—	—	—
Funds held in trust	—	11,858	11,858	—	1,838	1,838
Cross currency interest rate swaps	—	—	—	1,416	—	1,416
	\$ 224,404	\$ 45,466	\$ 269,870	\$ 374,557	\$ 33,951	\$ 408,508

Prepaid expenses and other assets

Prepaid expenses and other assets primarily include available-for-sale securities, prepaid property taxes and office furniture and equipment.

RioCan pays certain upfront non-refundable selling commissions with respect to the sale of residential condominium units. As at December 31, 2017 included in other assets are \$4.3 million of non-refundable sales commissions the Trust has paid with respect to the sale of these condominium units (December 31, 2016 - \$3.4 million), where it is probable that future economic benefits will flow to the Trust. No amortization prior to the recognition of revenue is recognized but, rather, a charge to net income occurs when the revenue associated with the sale is recognized.

Contractual rents receivable

Contractual rents receivable are presented net of an allowance for doubtful accounts of \$1.7 million as at December 31, 2017 (December 31, 2016 - \$1.8 million). RioCan determines its allowance for doubtful accounts on an individual tenant basis and reduces the carrying value of the receivable to the expected recoverable amount giving consideration to the tenant's payment history, credit worthiness, lease term, account status and other factors. Any subsequent recoveries of rent receivables previously recorded as doubtful accounts are recognized in the consolidated statements of income during the period of settlement.

Funds held in trust

Funds held in trust are property specific segregated funds that are contractually required by certain mortgage lenders. To support mortgage financing, lenders will sometimes require that certain property expenses be funded by monthly property cash flows. The reserves accumulate over time and, in some cases, are used by the lender to fund certain property expenses, such as realty taxes, insurance premiums, leasing commissions, repairs and maintenance, tenant construction allowances and landlord construction costs.

Cross currency interest rate swaps

During the year ended December 31, 2017, the Trust entered into cross currency interest rate swaps as part of its strategy to hedge any U.S. dollar denominated borrowings from the Trust's unsecured operating credit facility. These have the economic effect of converting floating rate U.S. dollar borrowings to floating rate Canadian dollar borrowings. These cash flow hedges are short-term in nature and qualify for hedge accounting. These hedges are expected to be highly effective since all critical terms of the hedged item and hedging instrument match. All such designated hedging relationships were effective during the year ended December 31, 2017.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

10. INCOME TAXES

The Trust qualifies for the REIT Exemption for Canadian income tax purposes; therefore, it will be entitled to deduct distributions for income tax purposes. The Trust expects to distribute its taxable income to unitholders such that it will not be subject to tax. From time to time, RioCan may retain some taxable income and net capital gains in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. Accordingly, no provision for Canadian current income tax payable is required, except for amounts incurred in its incorporated Canadian subsidiaries.

Where an entity does not qualify for the REIT Exemption for Canadian income tax purposes, certain distributions will not be deductible by that entity in computing its income for Canadian tax purposes. As a result, the entity will be subject to tax at a rate substantially equivalent to the general corporate income tax rate on distributed taxable income. Distributions paid in excess of taxable income will continue to be treated as a return of capital to unitholders. Undistributed taxable income is generally subject to the top marginal personal tax rate. The Trust consolidates certain wholly owned incorporated entities that remain subject to tax. The tax disclosures and expense relate only to these entities.

As at December 31, 2017, the Trust's Canadian corporate subsidiaries have recognized deferred income tax assets totalling \$11.9 million (December 31, 2016 - \$11.6 million) on deductible temporary differences related to intangible assets, deferred pension, deferred compensation and loss carryforwards that expire over the next 19 years. These deferred tax assets have been recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income available against which the temporary differences can be utilized.

11. LINES OF CREDIT AND OTHER BANK LOANS

The Trust's revolving unsecured operating line of credit and secured construction lines and other bank loans, net of deferred financing costs, are as follows:

As at December 31,	2017	2016
Revolving unsecured operating line of credit	\$ 387,093	\$ 502,359
Non-revolving unsecured credit facilities	299,360	—
Construction lines and other bank loans	217,976	203,274
	\$ 904,429	\$ 705,633

Revolving unsecured operating line of credit

As at December 31, 2017, RioCan had cash advances outstanding of \$390.0 million and \$610.0 million in cash available to be drawn from this revolving operating credit facility. The weighted average contractual interest rate on amounts drawn under this facility was 2.53% (December 31, 2016 - 1.92%).

On April 25, 2017, the Trust exercised its option to extend the maturity date on its operating line of credit to May 31, 2022.

Non-revolving unsecured credit facilities

On October 31, 2017, the Trust entered into a new \$200 million non-revolving unsecured credit facility with two financial institutions (consisting of a Schedule I and a Schedule III bank), with a maturity date of January 31, 2023. The new credit facility bears interest at a rate of Bankers' Acceptances plus 110 basis points per annum and is fully drawn as at December 31, 2017.

On December 27, 2017, the Trust entered into a \$100 million non-revolving unsecured credit facility with a Schedule I bank with a maturity date of December 27, 2019. The new credit facility bears interest at a rate of Bankers' Acceptances plus 100 basis points per annum and \$100 million is fully drawn as at December 31, 2017. The aforementioned facility provided the Trust with an option to increase the facility by up to \$50 million with the addition of a lender. Subsequent to year end, the Trust exercised this option and borrowed an additional \$50 million from a Schedule III bank under this facility.

The non-revolving unsecured credit facility agreements requires the Trust to maintain certain financial covenant's similar to those of RioCan's \$1 billion revolving unsecured operating line of credit. Refer to note 26 for additional details.

Construction lines and other bank loans

In addition to the revolving unsecured operating line of credit and non-revolving unsecured credit facilities, the Trust has secured credit facilities and other bank loans, which include variable rate non-revolving secured construction facilities for the funding of certain development properties. At December 31, 2017, these secured facilities and other bank loans have an aggregate maximum borrowing capacity of \$387.9 million and mature between 2018 and 2019, of which the Trust had drawn \$218.0 million (December 31, 2016 - \$203.3 million). The weighted average contractual interest rate on amounts outstanding is 2.28% (December 31, 2016 - 1.42%).

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

12. MORTGAGES PAYABLE

Mortgages payable, net of deferred financing costs, consist of the following:

As at December 31,	2017		2016	
Mortgages payable	\$	2,300,247	\$	2,699,935
Mortgages on properties held for sale		32,670		—
	\$	2,332,917	\$	2,699,935
Current	\$	578,851	\$	766,831
Non-current		1,754,066		1,933,104
	\$	2,332,917	\$	2,699,935

Future repayments of mortgages payable by year of maturity are as follows:

Year	Weighted average contractual interest rate	Scheduled principal amortization	Principal maturities	Total repayments
2018	3.67%	\$ 48,129	\$ 530,722	\$ 578,851
2019	4.01%	36,853	348,697	385,550
2020	3.65%	22,689	450,478	473,167
2021	4.40%	12,004	348,782	360,786
2022	3.15%	7,924	124,544	132,468
Thereafter	3.70%	8,011	385,419	393,430
	3.81%	\$ 135,610	\$ 2,188,642	\$ 2,324,252
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties				12,005
Unamortized debt financing costs, net of premiums and discounts				(3,340)
				\$ 2,332,917

Pledged properties

As at December 31, 2017, \$6.0 billion of the aggregate carrying value of investment properties, properties held for sale and residential inventory serves as security for RioCan's mortgages payable (December 31, 2016 - \$6.8 billion).

Weighted average effective and contractual interest rates

The following table summarizes the details of the Trust's weighted average effective and contractual interest rates on mortgages payable:

As at December 31,	2017 (i)		2016	
Weighted average interest rates:				
Effective		3.80%		3.99%
Contractual		3.81%		4.02%

(i) Mortgages maturing between 2018 and 2034.

13. DEBENTURES PAYABLE

Debentures payable consist of the following:

As at December 31,	2017		2016	
Current	\$	250,000	\$	150,000
Non-current		2,444,619		2,098,024
	\$	2,694,619	\$	2,248,024

As at December 31, 2017, total debentures payable bear interest at weighted average effective and contractual rates of 3.34% and 3.28% (December 31, 2016 - 3.52% and 3.52%), respectively.

Issuance

On January 16, 2017, the Trust issued \$300 million principal amount of Series Y senior unsecured debentures, which mature on October 3, 2022 and carry a coupon rate of 2.83%. The interest on these debentures is payable semi-annually commencing April 3, 2017. These debentures were sold at a price of \$999.97 per \$1,000 principal amount with an effective yield of 2.831% if held to maturity.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

On March 1, 2017, RioCan redeemed, in full, its \$150 million 3.80% Series P senior unsecured debentures in accordance with its terms.

On April 10, 2017, the Trust issued \$300 million principal amount of Series Z senior unsecured debentures at par, which mature on April 9, 2021 and carry a coupon rate of 2.194%. The interest on these debentures is payable semi-annually commencing October 9, 2017.

The Trust has the following series of senior unsecured debentures outstanding as at December 31 :

Series	Maturity date	Coupon rate	Interest payment frequency	2017	2016
P	March 1, 2017	3.80%	Semi-annual	\$ —	\$ 150,000
S	March 5, 2018	2.87%	Semi-annual	250,000	250,000
Q	June 28, 2019	3.85%	Semi-annual	350,000	350,000
U	June 1, 2020	3.62%	Semi-annual	150,000	150,000
X	August 26, 2020	2.19%	Semi-annual	250,000	250,000
Z	April 9, 2021	2.19%	Semi-annual	300,000	—
R	December 13, 2021	3.72%	Semi-annual	250,000	250,000
V	May 30, 2022	3.75%	Semi-annual	250,000	250,000
Y	October 3, 2022	2.83%	Semi-annual	300,000	—
T	April 18, 2023	3.73%	Semi-annual	200,000	200,000
W	February 12, 2024	3.29%	Semi-annual	300,000	300,000
I	February 6, 2026	5.95%	Semi-annual	100,000	100,000
Contractual obligations				\$ 2,700,000	\$ 2,250,000

Future repayments are as follows:

Years ending December 31:		Weighted average contractual interest rate	Principal maturities
2018		2.87%	\$ 250,000
2019		3.85%	350,000
2020		2.72%	400,000
2021		2.89%	550,000
2022		3.25%	550,000
Thereafter		3.88%	600,000
Contractual obligations			2,700,000
Unamortized debt financing costs			(5,381)
			\$ 2,694,619

Covenant compliance

The debentures have covenants relating to RioCan's leverage limit of up to 60% of aggregate assets as set out in the Trust's Declaration, the maintenance of a \$1.0 billion Adjusted Book Equity (as defined in the debenture), and maintenance of an interest coverage ratio of 1.65 times or greater. There are no requirements under the unsecured debenture covenants for RioCan to maintain unencumbered assets. RioCan has the right, at any time, to convert the Series I debentures to mortgage debt, subject to the acceptability of the security given to the debenture holders. In such an event, the covenants relating to the 60% leverage limit, minimum book equity and interest coverage ratio would be eliminated for those debentures. As at and during the year ended December 31, 2017, the Trust was in compliance with these covenants pursuant to the Trust's Declaration and debenture indentures.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at December 31,	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Property operating costs	\$ 54,689	\$ 24,239	\$ 78,928	\$ 59,491	\$ 20,686	\$ 80,177
Capital expenditures and leasing commissions:						
Properties under development	85,144	—	85,144	77,240	—	77,240
Income producing properties	20,625	—	20,625	32,564	—	32,564
Deferred revenue	20,527	43,775	64,302	22,071	26,249	48,320
Unitholder distributions payable	38,039	—	38,039	38,356	—	38,356
Interest payable	27,435	—	27,435	26,841	—	26,841
Finance lease obligations	1,461	20,064	21,525	2,573	16,080	18,653
Income taxes payable	14,396	—	14,396	136,169	—	136,169
Unfunded employee future benefits	—	14,156	14,156	—	12,751	12,751
Contingent consideration	2,718	—	2,718	325	—	325
Interest rate swap agreements	765	2,154	2,919	843	9,398	10,241
Other trade payables and accruals	24,219	5,521	29,740	24,407	4,236	28,643
	\$ 290,018	\$ 109,909	\$ 399,927	\$ 420,880	\$ 89,400	\$ 510,280

Income taxes payable

Income taxes payable relates primarily to the realized gain on sale of the Trust's U.S. income property portfolio during May 2016.

15. UNITHOLDERS' EQUITY

Common trust units

The Trust is authorized to issue an unlimited number of common units. The common units are entitled to distributions, as and when declared by the Board (and upon liquidation), and to a pro rata share of the residual net assets remaining after the preferential claims, thereon, of debt holders and preferred unitholders. As the Trust is a closed-end trust, the units are not puttable. The units issued and outstanding are as follows:

As at December 31,	2017		2016	
	Units	\$	Units	\$
Balance, beginning of year	326,615	4,788,520	322,483	4,684,194
Units issued:				
Distribution reinvestment plan	1,003	25,273	2,399	60,782
Unit option exercises	10	258	1,671	38,242
Costs associated with unit option plan	—	10	—	3,992
Direct purchase plan	36	898	36	959
Exchangeable limited partnership units	—	—	26	358
Common trust units repurchased and cancelled	(3,930)	(57,870)	—	—
Unit issue costs	—	(18)	—	(7)
Balance, end of year	323,734	4,757,071	326,615	4,788,520

Included in units outstanding as at December 31, 2017, are exchangeable limited partnership units totalling 1.0 million units (December 31, 2016 - 1.2 million units) of three limited partnerships that are subsidiaries of the Trust (the LP units), which were issued to vendors as partial consideration for income properties acquired by RioCan. RioCan is the general partner of the limited partnerships. The LP units are entitled to distributions equivalent to distributions on RioCan units and are exchangeable for RioCan units on a one-for-one basis at any time at the option of the holder.

On October 2, 2017, RioCan announced it will be suspending its DRIP effective November 1, 2017. Unitholders that are enrolled in the DRIP will receive the future distributions in cash commencing with any distribution declared in November 2017. If RioCan elects to reinstate the DRIP in the future, unitholders that were enrolled in the DRIP at the time of its suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

Normal course issuer bid

On October 10, 2017, RioCan announced the TSX approval of its notice of intention to make a normal course issuer bid (NCIB) for a portion of its units as appropriate opportunities arise from time to time. RioCan's NCIB will be made in accordance with the requirements of the TSX. Under the NCIB, RioCan may acquire up to a maximum of 32,520,207 of its units, or approximately 10% of its 325,202,070 outstanding units as of October 6, 2017, for cancellation over the next 12 months effective October 20, 2017.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The number of units that can be purchased pursuant to the bid is subject to a current daily maximum of 127,617 units (which is equal to 25% of 510,471, being the average daily trading volume from April 1, 2017 through to September 30, 2017), subject to RioCan's ability to make one block purchase of units per calendar week that exceeds such limits. RioCan intends to fund the purchases out of its available cash and undrawn credit facilities.

During the year ended December 31, 2017, the Trust acquired and cancelled 3,930,174 units at a weighted average price of \$25.30 per unit, for a total cost of \$99.6 million. The excess of the purchase price over the carrying amount of the units purchased, representing the unit price increases over the weighted average historical unit issuance price, was recorded as a reduction to retained earnings amounting to \$41.7 million.

Preferred trust units

The Trust is authorized to issue 50 million preferred units.

Series C

On June 30, 2017, the Trust exercised its option to redeem all 5.98 million outstanding Series C preferred trust units at the cash redemption price of \$25.00 per Series C unit, for a total redemption price of \$149.5 million paid on June 30, 2017. Unit issue costs totalling \$4.7 million were recorded as a charge to retained earnings upon redemption.

Contributed surplus

RioCan and its consolidated subsidiaries introduced new restricted equity plans (New REU Plans) and new performance equity plan (New PEU Plan) in 2017 as described in note 16. The awards issued under this new plan are settled by the delivery of common trust units purchased on the secondary market, net of applicable withholdings. The fair value of these equity-settled awards are recognized as an expense over the vesting period with a corresponding increase to contributed surplus, which is presented as a separate component of total unitholders' equity.

For the year ended December 31, 2017, RioCan recorded \$4.8 million in unit-based compensation costs (December 31, 2016 - \$1.6 million).

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) as at and for the year ended December 31, 2017 consists of the following amounts:

	Available-for-sale investments	Actuarial loss on pension plan	Interest rate swap agreements	Cross currency interest rate swap agreements	Total
As at December 31, 2016	\$ 78,947	\$ (997)	\$ (10,207)	\$ 74	\$ 67,817
Other comprehensive income (loss)	(10,283)	(984)	12,901	(74)	1,560
As at December 31, 2017	\$ 68,664	\$ (1,981)	\$ 2,694	\$ —	\$ 69,377

16. UNIT-BASED COMPENSATION PLANS

New REU Plans

Senior Executive REU Plan

The Senior Executive REU Plan, as referenced above, is a new plan introduced in 2017 that provides for the allotment of REUs to the Chief Executive Officer (CEO), President & Chief Operating Officer and Chief Financial Officer of the Trust, and such other officers or executive employees of the Trust that are determined by the CEO and approved by RioCan's Human Resources and Compensation Committee. Each REU notionally represents the value of one unit of the Trust on the date of grant. Unit distributions paid during the period from grant date until settlement date will be credited to each REU participant in the form of additional REUs.

The number of REUs granted shall vest one-third on each of the first, second and third anniversary of the grant date, provided however that all vested REUs are only eligible for settlement upon the third anniversary of the grant date (the Settlement Date). Settlement of vested REUs is generally made within 30 days after the Settlement Date by the delivery of an equivalent number of common trust units purchased on the secondary market, net of applicable withholding taxes.

On February 28, 2017, the Trust granted 78,969 REUs under its New Senior Executive REU Plan. The grant date price was \$26.68 per unit based on the five-day volume weighted average market price of RioCan's common trust units traded on the TSX prior to the grant date, resulting in an aggregate fair value of \$2.1 million.

Employee REU Plan

The Employee REU Plan is a new plan introduced in 2017 that provides for the allotment of REUs to certain senior level employees of the Trust that do not participate in the Senior Executive REU Plan. Each REU notionally represents the value of one unit of the Trust on the date of grant. Unit distributions paid during the period from grant date until settlement date will be credited to each REU participant in the form of additional REUs.

The number of REUs granted shall vest fully on the third anniversary of the grant date (the Settlement Date), including distribution equivalents that have accumulated during the vesting period. Settlement of vested REUs is generally made within 30 days after the Settlement Date.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

On February 28, 2017, the Trust granted 67,063 REUs under its Employee REU Plan. The grant date price was \$26.68 per unit based on the five-day volume weighted average market price of RioCan's common trust units traded on the TSX prior the grant date, resulting in an aggregate fair value of \$1.8 million.

New Performance Equity Unit Plan (New PEU Plan)

Effective January 1, 2017, the Trust implemented several changes to its executive pay program which takes into account unitholder feedback received during 2016. Included in these changes was a modification made to the comparator group for compensation benchmarking to include only peers that are domiciled in Canada. Specifically, RioCan adopted a single performance metric for its New PEU Plan, which is relative total unitholder return (TUR) against a peer group of S&P/TSX Capped REIT companies with a market capitalization above \$1.0 billion (excluding RioCan), plus First Capital Realty Inc. The second main change to this plan is that settlement on the vesting date will be effected via the delivery of an equivalent number of common trust units purchased on the secondary market, net of applicable withholding taxes.

During February 2017, the Trust granted 157,939 PEUs under its New PEU Plan at a fair value of \$4.3 million. The grant date fair value assumptions using the Monte-Carlo valuation model are as follows:

Fair value of PEUs granted	\$	4,299
PEUs granted (in thousands)		158
Grant date fair value per unit	\$	27.21
Expected risk-free interest rate (i)		0.8%
Expected unit price volatility (ii)		15.0%
Initial total unitholder return (iii)		1.1%

- (i) Derived using the yield on Government of Canada benchmark bonds with an average term similar to the PEU vesting period.
- (ii) Expected unit price volatility is calculated based on the average of the actual daily closing price of RioCan's trust units measured over a three-year historical period up to the grant date.
- (iii) PEUs granted under the New PEU Plan are subject to a relative TUR performance hurdle where vesting is dependent upon RioCan's TUR performance relative to a comparative group of peer companies. The initial TUR performance has incorporated actual historical TUR performance for RioCan and each company in the comparator group over the period from January 1, 2017 to March 31, 2017.

Incentive unit option plan

The Trust provides long-term incentives to certain employees by granting options through the incentive unit option plan (the plan). RioCan is authorized to issue up to a maximum of 22 million common unit options under the plan. As at December 31, 2017, 12.1 million common unit options remain available to be granted under the plan.

The exercise price for each option is equal to the volume weighted average trading price of the units on the TSX for the five trading days immediately preceding the dates of grant except for those options granted prior to May 27, 2009, which have an exercise price equal to the closing price of the units on the date prior to the day the option was granted. An option's maximum term is ten years. All options granted vest at 25% per annum commencing on the first anniversary of the grant date, and become fully vested after four years.

The Trust accounts for this plan by estimating the fair value of each tranche of an award at the grant date and subsequently recognizing the compensation expense over the vesting period.

The weighted average assumptions utilized in the calculation of units granted for the years ended December 31, 2017 and 2016 using the Black-Scholes option valuation model are as follows:

Years ended December 31,	2017		2016
Fair value of unit options granted	\$	—	\$ 2,194
Unit options granted (in thousands)		—	2,159
Unit option exercise price	\$	—	\$ 25.79
Expected risk free interest rate (i)		—%	0.5%
Expected distribution yield (ii)		—%	5.5%
Expected unit price volatility (iii)		—%	14.9%
Expected option life (years) (iv)		—	4.5

- (i) Determined using the yield on Government of Canada benchmark bonds with an average maturity period similar to the expected option life.
- (ii) Based on the annual distribution yield on the date of grant.
- (iii) Estimated by considering historic average unit price volatility for a period consistent with the expected option life.
- (iv) Represents the expected option life based on the actual holding period of all transacted option awards between grant date and the date of activity.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Unvested unit options granted prior to January 1, 2017, which remain outstanding under the existing plan, will continue to be expensed over the vesting period over which all specified vesting conditions are satisfied. The following summarizes the changes in unit options outstanding during the period:

	2017		2016	
	Units (in thousands)	Weighted average exercise price	Units (in thousands)	Weighted average exercise price
Outstanding, beginning of year	8,408	\$ 26.52	9,027	\$ 26.12
Granted	—	—	2,159	25.79
Exercised	(10)	25.78	(1,671)	22.89
Expired	(410)	27.44	(332)	27.17
Forfeited	(213)	26.71	(775)	27.35
Outstanding, end of year	7,775	\$ 26.47	8,408	\$ 26.52
Options exercisable at end of year	5,553	\$ 26.31	4,511	\$ 26.11
Average fair value per unit of options granted during the year		\$ —		\$ 1.02

As part of comprehensive changes to its executive compensation program, the Trust has enhanced the design of its long-term incentive program to reduce the frequency of option grants while replacing that portion of the overall long-term incentive compensation in 2017 with grants of New REU Plans and New PEU Plan as described above. As a result, RioCan did not grant any unit options during the year ended 2017.

The following table summarizes the outstanding options and related exercise price ranges of units granted under the plan:

Exercise Price Range (\$/unit)	Outstanding Options				Vested Options					
	Number of Common Units Issuable (in thousands)		Weighted Average Exercise Price per Common Unit		Weighted Average Remaining Life (years)		Number of Common Units Issuable (in thousands)		Weighted Average Exercise Price per Common Unit	
As at December 31,	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
12.15 to 24.93	582	582	\$20.02	\$20.02	2.3	3.3	582	582	\$20.02	\$20.02
24.94 to 26.53	2,248	2,494	25.59	25.62	7.1	8.0	948	575	25.33	25.10
26.54	1,150	1,181	26.54	26.54	5.1	6.1	1,031	944	26.54	26.54
26.55 to 27.50	1,393	1,476	27.28	27.28	5.1	6.2	1,341	1,188	27.28	27.27
27.51 to 27.69	1,329	1,479	27.57	27.57	6.0	7.0	1,114	898	27.59	27.58
27.70 to 30.00	1,073	1,196	29.31	29.31	7.2	8.2	537	324	29.31	29.31
	7,775	8,408	\$26.47	\$26.52	5.9	6.9	5,553	4,511	\$26.31	\$26.11

17. DISTRIBUTIONS TO UNITHOLDERS

Total distributions declared to unitholders are as follows:

Years ended December 31,	2017		2016	
	Total Distributions	Distributions per unit	Total Distributions	Distributions per unit
Common Unitholders	\$ 460,627	\$ 1.4100	\$ 458,388	\$ 1.4100
Preferred Unitholders – Series A	—	—	1,640	0.3281
Preferred Unitholders – Series C	3,514	0.5876	7,027	1.1750
	\$ 464,141		\$ 467,055	

On June 30, 2017, the Trust exercised its option to redeem all outstanding Series C preferred trust units. Refer to note 15 for further details.

On January 15, 2018, RioCan declared a distribution payable of 12.00 cents per unit for the month of January 2018, which will be paid on February 7, 2018 to common trust unitholders of record as at January 31, 2018.

RIOCAN REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

18. RENTAL REVENUE

Years ended December 31,	2017	2016
Base rent	\$ 729,723	\$ 706,407
Realty tax recoveries	226,939	219,685
Common area maintenance recoveries	159,486	157,936
Percentage rent	10,486	9,541
Straight-line rent	7,806	7,263
Lease cancellation fees	6,225	3,052
	\$ 1,140,665	\$ 1,103,884

19. INVESTMENT AND OTHER INCOME

Years ended December 31,	2017	2016
Income earned on available-for-sale securities	\$ 8,574	\$ 13,173
Transaction gains and other income	48,440	20,095
	\$ 57,014	\$ 33,268

Net transaction gains primarily include realized gains on the disposition of the Trust's available-for-sale securities.

20. INTEREST COSTS

Years ended December 31,	2017	2016
Total interest	\$ 199,817	\$ 206,989
Less: Interest capitalized to properties under development	28,399	27,462
	\$ 171,418	\$ 179,527

For the year ended December 31, 2017, interest was capitalized to properties under development at a weighted average effective interest rate of 3.54% (December 31, 2016 - 3.94%).

21. GENERAL AND ADMINISTRATIVE

Years ended December 31,	2017	2016
Salaries and benefits	\$ 23,267	\$ 23,568
Unit-based compensation expense	3,911	6,745
Depreciation and amortization	9,865	4,386
Other general and administrative	15,517	17,521
	\$ 52,560	\$ 52,220

Other general and administrative costs include information technology costs, public company costs, professional fees, travel expenses, occupancy costs, donations, advertising, promotion and marketing costs.

22. TRANSACTION AND OTHER COSTS

For the year ended December 31, 2017, transaction and other costs primarily include property acquisition and disposition costs, and other costs associated with transactions that the Trust decided not to pursue further totalling \$11.8 million, (December 31, 2016 - \$9.6 million).

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

23. NET INCOME PER UNIT

Net income per basic and diluted unit is calculated based on net income available to common unitholders divided by the weighted average number of common trust units outstanding taking into account the dilution effect of unit options.

Years ended December 31,	2017		2016	
Net income attributable to unitholders	\$	715,286	\$	830,747
Less: Net income from discontinued operations		7,021		147,687
Net income attributable to unitholders from continuing operations	\$	708,265	\$	683,060
Less: Preferred unit redemption (ii)		—		4,304
Distributions to preferred unitholders		3,514		8,667
Net income attributable to common unitholders from continuing operations	\$	704,751	\$	670,089
Weighted average common units outstanding (in thousands):				
Basic		326,805		325,386
Dilutive effect of common unit options (i)		124		279
Diluted		326,929		325,665
Net income per unit (basic):				
Continuing operations	\$	2.16	\$	2.06
Discontinued operations		0.02		0.45
	\$	2.18	\$	2.51
Net income per unit (diluted):				
Continuing operations	\$	2.16	\$	2.06
Discontinued operations		0.02		0.45
	\$	2.18	\$	2.51

(i) The calculation of diluted weighted average units outstanding excludes 6.7 million unit options for the year ended December 31, 2017 (December 31, 2016 - 4.4 million units), as the exercise price of these unit options was greater than the average market price of RioCan's common trust units.

(ii) Represents the excess of par redemption value over the carrying value of the Trust's Series A preferred trust units redeemed on March 31, 2016.

24. FAIR VALUE MEASUREMENT

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets is as follows:

As at	December 31, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	\$ 70,225	\$ —	\$ —	\$ 54,366	\$ —	\$ —
Available-for-sale securities	180,432	5,541	1,516	299,987	5,665	—
Investment properties:						
Income properties	—	—	12,075,939	—	—	12,406,719
Properties under development	—	—	1,084,305	—	—	880,319
Properties held for sale	—	—	410,178	—	—	60,530
Cross currency interest rate swaps	—	—	—	—	1,416	—
Interest rate swaps	—	5,101	—	—	—	—
Total assets measured at fair value	\$ 250,657	\$ 10,642	\$ 13,571,938	\$ 354,353	\$ 7,081	\$ 13,347,568
Liabilities measured at fair value:						
Interest rate swaps	—	2,919	—	—	10,241	—
Total liabilities measured at fair value	\$ —	\$ 2,919	\$ —	\$ —	\$ 10,241	\$ —

For assets and liabilities measured at fair value as at December 31, 2017, there were no transfers between Level 1, Level 2 and Level 3 during the period. For changes in fair value measurements of investment properties and properties held for sale included in Level 3 of the fair value hierarchy, refer to note 5 for details on the changes in beginning and ending balances.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Fair value of financial instruments

The Trust's financial instruments carrying values and fair values on the consolidated balance sheets are as follows:

As at	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 70,225	\$ 70,225	\$ 54,366	\$ 54,366
Available-for-sale securities	187,489	187,489	305,652	305,652
Receivables and other assets	30,427	30,427	42,427	42,427
Mortgages and loans receivable	145,873	144,855	118,017	115,416
Interest rate swap assets	5,101	5,101	—	—
Cross currency interest rate swaps	—	—	1,416	1,416
Financial liabilities:				
Mortgages payable	2,300,247	2,205,417	2,699,935	2,717,006
Debentures payable	2,694,619	2,738,790	2,248,024	2,371,060
Unsecured operating line of credit	387,093	387,093	502,359	502,359
Construction lines and other bank loans	517,336	517,336	203,274	203,274
Interest rate swap liabilities	2,919	2,919	10,241	10,241
Accounts payable and other liabilities	382,878	382,878	489,613	489,613

The fair values of the Trust's financial instruments were determined as follows:

Receivables, other assets, accounts payable and other liabilities

These instruments' carrying amounts approximate fair values due to their short-term nature.

Mortgages and other loans receivable

The fair value of mortgages and other loans receivable is determined by the discounted cash flow method using applicable inputs such as prevailing interest rates, contractual rates and discounts. Fair value measurements of these instruments were estimated using Level 3 inputs. The carrying values of short-term and variable rate loans generally approximate their fair values.

Mortgages payable, lines of credit, mortgages on properties held for sale and debentures payable

The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Trust for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs. The carrying values of short-term and variable rate debt generally approximate their fair values.

Cross currency interest rate swap

The fair values of the cross currency interest rate swaps reported in other liabilities represent estimates at a specific point in time using financial models, based on both foreign exchange and interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves.

Interest rate swap

The fair values of the interest rate swaps reported in other receivables and other liabilities represent estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves.

25. RISK MANAGEMENT

The main risks arising from the Trust's financial instruments are interest rate, liquidity, credit and foreign exchange risks.

The Trust's approach to managing these risks is summarized below:

Interest rate risk

The Trust is exposed to interest rate risk on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. The majority of the Trust's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. As at December 31, 2017, approximately 16.5% (December 31, 2016 - 13.8%) of the Trust's debt (including mortgages held for sale) is financed at variable rates, exposing the Trust to changes in interest rate risk.

From time to time, the Trust may enter into floating-for-fixed interest rate swaps as part of its strategy for managing interest rate risk. The Trust has applied hedge accounting and recorded the changes in fair value for the effective portion of these derivatives in Other comprehensive income (loss) (OCI) from the date of hedge designation. For any interest rate swaps for which the Trust does not apply hedge accounting, the change in fair value of the swap contracts is recognized in the consolidated statements of income.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

As at December 31, 2017, the outstanding notional amount of the floating-to-fixed interest rate swaps was \$682.5 million (December 31, 2016 - \$682.6 million) and the term to maturity of these agreements ranges from May 2018 to April 2024.

The outstanding interest rate swaps by year of maturity are as follows:

Maturity	Original principal amount	Weighted average effective fixed interest rate
2018	\$ 208,938	3.60%
2019	126,020	2.31%
2020	119,025	2.88%
2021	55,000	4.12%
2022	57,600	2.86%
Thereafter	115,900	2.34%
	\$ 682,483	

The Trust assesses the effectiveness of the hedging relationship on a quarterly basis and has determined there is no ineffectiveness in the hedging of its interest rate exposure. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in OCI. As at December 31, 2017, the fair value of the interest rate swaps are, in aggregate, a net financial asset of \$2.2 million (December 31, 2016 - a net financial liability of \$10.2 million).

As at December 31, 2017, the carrying value of the Trust's floating rate debt, not subject to a hedging strategy, is \$1.0 billion. As at December 31, 2017, a 50 basis point increase in market interest rates would result in a \$4.9 million decrease in the Trust's net income.

Liquidity risk

Liquidity risk is the risk that the Trust will not meet its financial obligations as they become due. The Trust mitigates its liquidity risk by staggering the maturity dates of its long-term debt, limiting the use of floating rate debt, actively renewing expiring credit arrangements, utilizing undrawn lines of credit, and issuing equity when considered appropriate.

- For the schedule of future repayments of mortgages, floating rate debt and funds drawn against the Trust's operating line of credit, refer to notes 11 and 12 for details.
- For the schedule of future repayments of debentures, see note 13 for further details.

The Trust expects to continue financing future acquisitions, development and debt obligations through existing cash balances, internally generated cash flows, mortgages, operating facilities, issuance of equity, unsecured debentures, and the sale of non-core assets.

Credit risk

Credit risk arises from the possibility that:

- Tenants experience financial difficulty and are unable to fulfil their lease commitments or tenants fail to occupy and pay rent in accordance with existing lease agreements, some of which are conditional.
- Borrowers default on the repayment of their mortgages to the Trust.
- Third-party defaults on the repayment of debt whereby RioCan has provided lender guarantees.

RioCan's Declaration of Trust contains provisions that have the effect of limiting the amount of space that can be leased to one tenant and its investment in mortgages receivable.

Additionally, the Trust mitigates tenant credit risk through geographical diversification, staggered lease maturities, diversification of revenue sources resulting from a large tenant base, avoiding dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of the Trust's gross revenue and ensuring a considerable portion of the Trust's revenue is earned from national and anchor tenants and conducting credit assessments for new tenants.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. As a result of the Trust's disposal of its U.S. property portfolio in 2016 and the associated repayment of U.S. denominated debt, discussed further in note 4, RioCan has significantly reduced its foreign exchange risk.

26. CAPITAL MANAGEMENT

The Trust defines capital as the aggregate of unitholders' equity and debt. The Trust's capital management framework is designed to maintain a level of capital that complies with investment and debt restrictions pursuant to RioCan's Declaration, complies with existing debt covenants, enables the Trust to achieve target credit ratings, implements its business strategies and builds long-term unitholder value. The key elements of RioCan's capital management framework are approved by its unitholders via the Trust's Declaration of Trust and by its Board through their annual review of the Trust's strategic plan and budget, supplemented by periodic Board and Board Committee meetings. Capital adequacy is monitored by the Trust by assessing performance against the approved annual plan throughout the year, which is updated accordingly, and by monitoring adherence

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

to investment and debt restrictions contained in the Declaration and debt covenants.

RioCan's Declaration provides for maximum total debt levels up to 60% of Aggregate Assets (as defined in the Declaration). The Trust is in compliance with this restriction.

Additionally, RioCan's Declaration contains provisions that have the effect of limiting capital expended by the Trust for, among other items, the following:

- direct and indirect investments (net of related mortgages payable) in non-income producing properties (including greenfield developments and mortgages receivable to fund the Trust's co-owners' share of such developments) to no more than 15% of the Adjusted Unitholders' Equity of the Trust (herein referred to as the "Basket Ratio" with Adjusted Unitholders' Equity as defined in the Declaration);
- total investment by the Trust in mortgages receivable, other than mortgages taken back by the Trust on the sale of its properties, to no more than 30% of the Adjusted Unitholders' Equity of the Trust;
- any property acquired by the Trust, directly or indirectly, if the cost to the Trust of such acquisition (net of the amount of mortgages payable assumed) exceeds 10% of the Adjusted Unitholders' Equity of the Trust;
- subject to the Basket Ratio, securities of an entity, other than to the extent that such securities would, for the purpose of the Declaration, constitute an investment in real estate; and
- the amount of space that can be leased or subleased to any tenant, with certain exceptions, to a maximum space having an aggregate gross leasable area of 20% of the aggregate gross leasable area of all real estate investments held by the Trust.

The Trust is in compliance with each of the above noted restrictions as at and for the year ended December 31, 2017. The Trust intends, but is not contractually obligated, to distribute to its unitholders in each year an amount not less than the Trust's income for the year, as calculated in accordance with the *Income Tax Act* (Canada) (the Tax Act) after all permitted deductions under the Tax Act have been taken. RioCan's Trustees rely upon forward-looking cash flow information, including forecasts and budgets and the future business prospects of RioCan, to establish the level of cash distributions.

The Trust's debentures payable have covenants that are consistent with the Debt to Aggregate Assets ratio as discussed above, maintenance of at least \$1 billion of Adjusted Book Equity (defined in the indenture), and maintenance of at least an interest coverage ratio (defined in the indenture) of 1.65 for a rolling twelve-month period.

The following table highlights RioCan's Ratio of Debt to Total Assets (net of cash), Basket Ratio and Interest coverage ratio in accordance with the Declaration:

As at December 31,	Note	2017	2016
Debentures payable	13	2,694,619	2,248,024
Mortgages payable	12	2,300,247	2,699,935
Lines of credit and other bank loans	11	904,429	705,633
Liabilities associated with assets held for sale	4	32,670	—
Total Debt		5,931,965	5,653,592
Unitholders' equity		8,044,686	8,009,888
Total capital		\$ 13,976,651	\$ 13,663,480
Ratio of debt, net of cash, to total assets, net of cash		41.0%	39.7%
Basket Ratio		3.3%	2.6%
Year ended December 31,		2017	2016
Interest coverage ratio		3.87	3.38

Revolving unsecured operating line of credit and non-revolving unsecured credit facilities

The Trust is subject to certain key financial covenants pursuant to the agreement governing its revolving unsecured operating line of credit and non-revolving unsecured credit facilities, which are calculated on a rolling twelve-month basis. As at and for the year ended December 31, 2017, the Trust is in compliance with all applicable financial covenants.

RIOCAN REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The following table summarizes the Trust's performance relative to these key financial covenants:

	Key covenant	December 31, 2017
Total indebtedness (i) (vi)	< 60%	44.5%
Secured indebtedness (ii) (vi)	< 40%	18.4%
Debt service coverage (iii) (vi)	> 1.5x	2.8 x
Minimum unitholders' equity (in millions)	> \$5,000	\$8,045
Ratio of unencumbered property assets to unsecured indebtedness (iv) (v) (vi)	> 1.5x	2.0 x
Properties held for development as a percentage of consolidated gross book value of assets	< 15%	8.5%

- (i) Total indebtedness consists of the contractual amounts outstanding on mortgages payable, lines of credit and other bank loans, debentures payable, capital lease obligations, contingent liabilities and the maximum exposure to loss for all third-party debt where RioCan has provided a financial guarantee.
- (ii) Secured indebtedness includes mortgages payable, secured construction lines and other bank loans and capital lease obligations, which are secured against investment properties.
- (iii) Debt service includes regular mortgage principal and interest payments, including interest capitalized on properties under development.
- (iv) Unsecured indebtedness includes the contractual amounts outstanding of the revolving unsecured operating line of credit, non-revolving unsecured credit facilities, debentures and any third-party debt amounts guaranteed by RioCan.
- (v) Unencumbered property assets consist of properties that have not been pledged as security for debt. The unencumbered property asset to unsecured indebtedness ratio is calculated as unencumbered assets divided by unsecured indebtedness.
- (vi) These ratios include inputs from proportionately consolidated equity accounted investments.

27. OPERATING LEASES

Lease commitments – Trust as lessor

The Trust as lessor has entered into leases on its property portfolio. The leases typically have lease terms between five and twenty years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to terminate before the end of the lease term.

Future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

As at December 31,	2017
Within twelve months	\$ 704,213
Two to five years	1,975,293
Over five years	1,450,758
Total	\$ 4,130,264

Contingent rent recognized in the consolidated statements of income for the year ended December 31, 2017 is \$12.0 million (December 31, 2016 - \$12.2 million).

RIOCAN REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

28. SUBSIDIARIES

The subsidiaries listed below are wholly owned and reflect significant entities of the Trust:

Name	Country
RioCan Management (BC) Inc.	Canada
RioCan Management Inc.	Canada
RioCan (KS) Management LP	Canada
RioCan Management Beneficiary Trust	Canada
RioCan Yonge Eglinton LP	Canada
RioCan (Festival Hall) Trust	Canada
Timmins Square Limited Partnership	Canada
Shoppers World Brampton Investment Trust	Canada
RioCan Realty Investments Partnership Four LP	Canada
RioCan Realty Investments Partnership Seven LP	Canada
RioCan Realty Investments Partnership Nine LP	Canada
RioCan Realty Investments Partnership Ten LP	Canada
RioCan Realty Investments Partnership Eleven LP	Canada
RioCan Realty Investments Partnership Twelve LP	Canada
RioCan Realty Investments Partnership Thirteen LP	Canada
RioCan Realty Investments Partnership Fourteen LP	Canada
RioCan Realty Investments Partnership Fifteen LP	Canada
RioCan Realty Investments Partnership Sixteen LP	Canada
RioCan (GH) Limited Partnership	Canada
RioCan Property Services Trust	Canada
RioCan White Shield Limited Partnership	Canada
RioCan (GTA Marketplace) LP	Canada
RioCan East Village LP	Canada
RC REIT Limited Partner Trust	Canada
RC NA Property 1 LP	Canada
RC NA Property 2 LP	Canada
RC NA Property 3 LP	U.S.

29. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,	2017	2016
Interest received	\$ 5,724	\$ 776
Interest paid	199,224	229,159
Distributions paid:		
Distributions declared during the year	\$ (460,627)	\$ (458,388)
Distributions declared in the prior period paid in the current year	(38,356)	(37,893)
Distributions declared in current period paid in the next year	38,039	38,356
Distributions paid before the undernoted	\$ (460,944)	\$ (457,925)
Proceeds from units issued under the distribution reinvestment plan	25,273	60,782
Distributions paid, including proceeds reinvested under distribution reinvestment plan	\$ (435,671)	\$ (397,143)

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The following provides a reconciliation of liabilities arising from financing activities:

Year ended December 31, 2017	Mortgages Payable	Lines of Credit	Debentures
Balance, beginning of year	\$ 2,699,935	\$ 705,633	\$ 2,248,024
Cash flows	(384,844)	200,933	446,948
Non-cash changes:			
Deferred financing costs	(4,211)	(721)	(353)
Cross currency swaps	—	(1,416)	—
Assumed (disposed) on acquisition/disposition	22,037	—	—
Balance, end of year	\$ 2,332,917	\$ 904,429	\$ 2,694,619
Liabilities on properties held for sale	32,670	—	—
	\$ 2,300,247	\$ 904,429	\$ 2,694,619

30. CHANGES IN OTHER WORKING CAPITAL ITEMS

Years ended December 31,	2017	2016
Receivable and other assets	\$ (304)	\$ 96,709
Mortgage receivable interest	(1,649)	(4,914)
Residential development inventory	(50,195)	(3,138)
Accounts payable and other liabilities	(109,510)	94,492
Foreign exchange and other	(6,483)	(57,408)
Net change in other working capital items	\$ (168,141)	\$ 125,741

31. RELATED PARTY TRANSACTIONS

Key management personnel are defined by the Trust as those individuals that have the authority and responsibility for planning, directing and controlling the Trust's activities, directly or indirectly.

The Trust's key management personnel include each of the Trustees and the following individuals: Chief Executive Officer, Edward Sonshine; President and Chief Operating Officer, Raghunath Davloor; and Senior Vice President and Chief Financial Officer, Qi Tang, effective June 8, 2017 (collectively, the Key Executives).

On March 1, 2017, RioCan announced the resignation of Cynthia Devine as Executive Vice President, Chief Financial Officer & Corporate Secretary of the Trust, effective as of March 31, 2017.

On June 8, 2017, RioCan announced the appointment of Qi Tang, Senior Vice President and Acting Chief Financial Officer, as the Senior Vice President and Chief Financial Officer of the Trust, effective June 8, 2017.

Remuneration of the Trust's Trustees and Key Executives during the year ended December 31, 2017 and 2016 is as follows:

Years ended December 31,	Trustees		Key Executives	
	2017	2016	2017	2016
Compensation and benefits	\$ 261	\$ 301	\$ 5,226	\$ 5,756
Unit-based payments	1,537	2,253	2,214	5,341
Post-employment benefit costs	—	—	36	57
	\$ 1,798	\$ 2,554	\$ 7,476	\$ 11,154

32. EMPLOYEE BENEFITS

Plan characteristics

RioCan sponsors a defined contribution plan and three defined benefit plans that provide pension and certain post-employment benefits to eligible employees. Plan members are not required, nor are they permitted, to contribute to these plans. The defined benefit plans are closed to new members and any new employees are generally eligible to join the defined contribution pension plan. All plans are administered by separate funds that are legally segregated from RioCan.

Defined contribution plan

The Trust's defined contribution pension plans provide pension benefits based on accumulated RioCan contributions. RioCan's contributions are based on a percentage of an employee's annual earnings. For the year ended December 31, 2017, RioCan's contributions to the defined contribution plan was \$1.0 million (December 31, 2016 - \$1.0 million).

Defined benefit plans

RioCan's defined benefit pension plans, one of which is a registered plan and two of which are supplemental unregistered plans, provide pension benefits mostly based on years of credited service, the average of the highest five years of earnings and the age of the member at retirement.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

The Trust measures its benefit obligations and pension assets as at December 31 each year. All plans are valued using the projected unit-credit method. The Trust funds its registered defined benefit pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current pension regulations. The most recent funding actuarial valuation for the Trust's defined benefit plans was completed as at January 1, 2016, and the next valuation is scheduled for January 1, 2019.

The fair value of the registered plan assets as at December 31, 2017 is \$3.4 million (December 31, 2016 - \$2.8 million). The recognized pension obligation (net of plan assets) as at December 31, 2017 is \$14.2 million (December 31, 2016 - \$12.8 million). Pension costs, net of recoveries, of \$0.4 million were recorded in net income for the year ended December 31, 2017 (pension costs for the year ended December 31, 2016 - \$0.5 million).

The discount rate used was 3.4% (December 31, 2016 - 3.8%), the compensation growth rate was 4.0% (December 31, 2016 - 4.0%) and the expected long-term rate of return on assets was 3.4% (December 31, 2016 - 3.8%).

Actuarial gains and losses for the defined benefit plans are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to income in subsequent periods.

33. SEGMENTED INFORMATION

RioCan primarily owns, develops, manages and operates grocery-anchored retail centres and mixed-use developments located in Canada. In measuring the performance of its retail centres, the Trust does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment. Management has applied judgment by aggregating its operating segments into one reportable segment for disclosure purposes. Such judgment considers the nature of property operations, tenant mix and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

The Trust's Chief Executive Officer is the chief operating decision maker and regularly reviews RioCan's operations and performance on an individual property basis. RioCan does not have any single major tenant or a significant group of tenants.

34. CONTINGENCIES AND OTHER COMMITMENTS

Third-party guarantees

The maximum exposure to credit risk relating to a guarantee is the maximum risk of loss if there was a total default by the co-owner, without consideration of recoveries under recourse provisions against such co-owner's equity in the property or other assets of the co-owner.

As at December 31, 2017, the maximum exposure to credit loss as a result of debt guaranteed by RioCan is \$385.0 million, which expires between 2018 and 2034, which includes guarantees of \$348.9 million on behalf of co-owners (December 31, 2016 - \$340.9 million). \$36.1 million of debt guaranteed by RioCan relates to the assumption of mortgages on property dispositions (December 31, 2016 - \$86.8 million). There have been no defaults by the primary obligors for debts on which the Trust has provided its guarantees, and as a result, no provision for these guarantees has been recognized in the Consolidated Financial Statements.

Letters of credit

The Trust has aggregate letter of credit facilities with certain Schedule I banks totalling \$79.0 million (December 31, 2016 - \$80.5 million). As at December 31, 2017, the Trust's outstanding letters of credit under these facilities was \$37.2 million (December 31, 2016 - \$28.9 million).

Lease commitments – Trust as lessee

The Trust as lessee is committed under long-term operating leases with various expiry dates to 2088. Future minimum lease payments are as follows:

	December 31, 2017		
	Land Leases	Operating Leases	Total Commitments
Within 12 months	\$ 898	\$ 322	\$ 1,220
2 to 5 years	3,214	723	3,937
Over 5 years	6,554	4	6,558
Total	\$ 10,666	\$ 1,049	\$ 11,715

Investment commitments

RioCan HBC Joint Venture

As at December 31, 2017, RioCan has approximately \$150.0 million of remaining unfunded investment commitments related to the RioCan-HBC JV (December 31, 2016 - \$157.0 million). The remaining contribution commitments will be completed by the third anniversary of the effective date of November 25, 2015.

RIOCAN REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

WhiteCastle New Urban Funds (WNUF)

As at December 31, 2017, the Trust has total unfunded investment commitments of \$83.9 million relating to WNUF 1, WNUF 2, WNUF 3 and WNUF 4 (December 31, 2016 - \$53.0 million). Amounts to be funded are callable by the general partner at any point prior to the expiration of the investment period, which is February 28, 2018 for WNUF 1 and WNUF 2; May 1, 2020 for WNUF 3; and September 15, 2027 for WNUF 4.

Litigation

The Trust is involved with litigation and claims that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies will not have a significant adverse effect on the Trust's Consolidated Financial Statements.

35. EVENTS AFTER THE BALANCE SHEET DATE

Debenture Issuance

On January 31, 2018, the Trust issued \$300 million of Series AA senior unsecured debentures, which mature on September 29, 2023 and carry a coupon rate of 3.209%. The interest on these debentures is payable semi-annually commencing September 29, 2018. The debentures were sold at a price of \$999.95 per \$1,000 principal amount with an effective yield of 3.209% if held to maturity. The Series AA debentures can be redeemed in whole or in part at par on or after August 29, 2023 prior to maturity.

Acquisitions and Dispositions

On January 9, 2018, the Trust acquired an income property in Whitby, Ontario for a purchase price of \$31.1 million at a capitalization rate of 6.16% with no assumption of debt.

On January 12, 2018, the Trust acquired the remaining one third interest in an existing income property in Ontario for a purchase price of \$18.5 million at a capitalization rate of 5.65% and assumed a mortgage with a fair value of \$9.4 million.

On January 18 and 23, 2018, the Trust acquired three properties in Toronto for its Yorkville development project for a total purchase price, including transaction costs, of \$31.1 million with no assumption of debt.

On January 9, 2018, RioCan entered into a firm agreement to sell two income properties at a sale price of \$85.0 million at a weighted average capitalization rate of 5.45%, based on in-place net operating income, subject to customary closing conditions. On the expected closing date, the buyer will assume the mortgage payable of \$32.7 million and RioCan will provide a vendor take-back mortgage of \$7.5 million.

Subsequent to December 31, 2017, RioCan entered into a firm agreement to sell four income properties at a sale price of \$216.9 million at a weighted average capitalization rate of 6.06%, subject to customary closing conditions. Mortgages payable of \$67.5 million will be repaid upon expected deal closing in April 2018.

PAGE INTENTIONALLY BLANK

CORPORATE INFORMATION

SENIOR MANAGEMENT

Edward Sonshine, O.Ont., Q.C.
Chief Executive Officer

Raghunath Davloor
President and Chief Operating Officer

Qi Tang
Senior Vice President and CFO

Jeff Ross
Senior Vice President, Leasing & Tenant Coordination

Danny Kissoon
Senior Vice President, Operations

Andrew Duncan
Senior Vice President, Developments

John Ballantyne
Senior Vice President, Asset Management

Jennifer Suess
Senior Vice President, General Counsel and
Corporate Secretary

Jonathan Gitlin
Senior Vice President, Investments & Residential

Terri Andrianopoulos
Vice President, Marketing & Communications

Moshe Batalion
Vice President, Leasing – Ontario

Stuart Baum
Vice President, Human Resources

Stuart Craig
Vice President, Planning & Development

Roberto DeBarros
Vice President, Construction

Anuska Grant
Vice President, Sustainability & Asset Efficiency

Oliver Harrison
Vice President, Asset Management

Frank Keller
Vice President, Leasing

Kevin Miller
Regional Vice President,
Operations – Western Canada

Pradeepa Nadarajah
Vice President, Property Accounting

Paran Namasivayam
Vice President, Recovery Accounting

Stephen Roberts
Vice President, Analytics

Tim Roos
Vice President, Operations

Franca Smith
Vice President, Finance

Jonathan Sonshine
Vice President, Asset Management

Jeffrey Stephenson
Vice President, Operations

Naftali Sturm
Vice President, Real Estate Finance

Kimberly Valliere
Vice President, Development Construction

Renato Vanin
Vice President, Information Technology

Jason Wong
Vice President, Corporate Tax

BOARD OF TRUSTEES

Paul Godfrey, C.M., O.Ont. ^{1,2,3,4}
(Chairman of Board of Trustees)
President and Chief Executive Officer
Postmedia Network Canada Corp.

Bonnie R. Brooks, C.M. ^{3,4}
Chair, Liquor Control Board of Ontario

Clare R. Copeland ^{1,2}
Vice-Chair, Falls Management Company

Dale H. Lastman
Chair and Partner, Goodmans LLP

Jane Marshall ^{2,3,4}
Former Chief Operating Officer of
Choice Properties REIT

Sharon Sallows ^{1,2,4}
Trustee, Chartwell Retirement Residences REIT

Edward Sonshine, O.Ont., Q.C.
Chief Executive Officer
RioCan Real Estate Investment Trust

Charles M. Winograd ^{3,4}
President, Winograd Capital Inc.

Sim Vaneselja ¹
Chair of the Audit Committee,
RioCan Real Estate Investment Trust

1 member of the Audit Committee

2 member of the Human Resources & Compensation
Committee

3 member of the Nominating & Governance Committee

4 member of the Investment Committee

UNITHOLDER INFORMATION

Head Office
RioCan Real Estate Investment Trust
RioCan Yonge Eglinton Centre,
2300 Yonge Street, Suite 500
P.O. Box 2386, Toronto, Ontario M4P 1E4
Tel: (416) 866-3033 or 1 (800) 465-2733
Fax: (416) 866-3020
Website: www.riocan.com
Email: inquiries@riocan.com

UNITHOLDER AND INVESTOR CONTACT

Christian Green
Assistant Vice President, Investor Relations &
Compliance
Tel: (416) 864-6483
Email: cgreen@riocan.com

AUDITORS

Ernst & Young LLP

TRANSFER AGENT AND REGISTRAR

AST Trust Company (Canada)
P.O. Box Station B,
Montreal, Quebec H3B 3K3
Answerline: 1 (800) 387-0825 or
(416) 643-5500
Fax: 1 (800) 249-6189 or (514) 985-8843
Website: www.canstockta.com
Email: inquiries@canstockta.com

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbols:
Common Units – REI.UN

ANNUAL MEETING

The 2018 Annual Meeting of RioCan REIT will be held on May 29, 2018 at 10:00 a.m. at SilverCity Theatres located at RioCan Yonge Eglinton Centre, 2300 Yonge Street, Toronto, Ontario. All unitholders are invited and encouraged to attend in person or via webcast at www.riocan.com.

On peut obtenir une version française du présent rapport annuel sur le site web de RioCan : www.riocan.com.

A French language version of this annual report is available on RioCan's website: www.riocan.com

RIOCAN
REAL VISION, SOLID GROUND.

RIOCAN YONGE EGLINTON CENTRE

2300 Yonge Street T 416 866 3033
Suite 500 TF 1 800 465 2733
P.O. Box 2386 F 416 866 3020
Toronto, Ontario W www.riocan.com
M4P 1E4

