MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of First Capital Realty Inc. ("First Capital Realty", "FCR" or the "Company") is intended to provide readers with an assessment of performance and summarize the financial position and results of operations for the three months and years ended December 31, 2018 and 2017. It should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017. Additional information, including the Company's current Annual Information Form, is available on the SEDAR website at www.sedar.com and on the Company's website at www.fcr.ca.

All dollar amounts are in thousands of Canadian dollars, unless otherwise noted. Historical results and percentage relationships contained in the Company's unaudited interim and audited annual consolidated financial statements and MD&A, including trends which might appear, should not be taken as indicative of its future operations. The information contained in this MD&A is based on information available to Management and is dated as of February 12, 2019.

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

FORWARD-LOOKING STATEMENT ADVISORY

Certain statements contained in this MD&A constitute forward-looking statements. Other statements concerning First Capital Realty's objectives and strategies and Management's beliefs, plans, estimates and intentions also constitute forward-looking statements. Forward-looking statements can generally be identified by the expressions "anticipate", "believe", "plan", "estimate", "project", "expect", "intend", "outlook", "objective", "may", "will", "should", "continue" and similar expressions. The forward-looking statements are not historical facts but, rather, reflect the Company's current expectations regarding future results or events and are based on information currently available to Management. Certain material factors and assumptions were applied in providing these forward-looking statements. Forward-looking information involves numerous assumptions such as rental income (including assumptions on timing of lease-up, development coming online and levels of percentage rent), interest rates, tenant defaults, borrowing costs (including the underlying interest rates and credit spreads), the general availability of capital and the stability of the capital markets, the ability of the Company to make loans at the same rate or in the same amount as repaid loans, amount of development costs, capital expenditures, operating costs and corporate expenses, level and timing of acquisitions of income-producing properties, the Company's ability to complete dispositions and the timing, terms and anticipated benefits of any such dispositions, the Company's ability to redevelop, sell or enter into partnerships with respect to the future uncommitted incremental density it has identified in its portfolio, the Company's ability to convert into a real estate investment trust ("REIT"), number of shares outstanding and numerous other factors. Moreover, the assumptions underlying the Company's forward-looking statements contained in the "Outlook and Current Business Environment" section of this MD&A also include that consumer demand will remain stable, and demographic trends will continue.

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

Factors that could cause actual results or events to differ materially from those expressed, implied or projected by forward-looking statements, in addition to those factors referenced above, include, but are not limited to: general economic conditions; real property ownership; tenant financial difficulties, defaults and bankruptcies; the relative illiquidity of real property; increases in operating costs, property taxes and income taxes; First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents; the availability and cost of equity and debt capital to finance the Company's business, including the repayment of existing indebtedness as well as development, intensification and acquisition activities; changes in interest rates and credit spreads; organizational structure; changes to credit ratings; the availability of a new competitive supply of retail properties which may become available either through *construction, lease or sublease; the Company's ability to: execute on its evolved urban investment strategy, including with respect to dispositions, capitalize on competitive advantages, optimize portfolio assets and accelerate value delivered to its investors and stakeholders, remain ahead of changing market conditions, surface unrecognized value, reach its demographic targets and ensure the Company retains its best in class position; unexpected costs or liabilities related to acquisitions, development and construction; geographic and tenant concentration; residential development, sales and leasing; compliance with financial covenants; changes in governmental regulation; environmental liability and compliance costs; unexpected costs or liabilities related to dispositions; challenges associated with the integration of acquisitions into the Company; uninsured losses and First Capital Realty's ability to obtain insurance coverage at a reasonable cost; risks in joint ventures; matters associated with significant shareholders; investments subject to credit and market risk; loss of key personnel; and the ability of tenants to maintain necessary licenses, certifications and accreditations. Furthermore, no formal determination to convert to a REIT has been made by the Company at this time and no assurance can be given as to whether such a reorganization will be undertaken by the Company, or the timing, or impact of such reorganization, or its terms.*

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

All forward-looking statements in this MD&A are made as of February 12, 2019 and are qualified by these cautionary statements.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty Inc. (TSX: FCR) is one of the largest owners, developers and operators of necessity-based real estate located in Canada's most densely populated urban centres. As at December 31, 2018, the Company owned interests in 166 properties, totaling approximately 25.5 million square feet of gross leasable area.

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

- undertake selective development, redevelopment and repositioning activities on its properties, including land use intensification;
- be focused and disciplined in acquiring well-located properties to create super urban neighbourhoods, primarily where there are value creation opportunities, including sites in close proximity to existing properties in the Company's target urban markets;
- raising capital to fund future growth through select dispositions;
- proactively manage its existing portfolio to drive rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength and flexibility to support a competitive cost of capital.

Neighbourhoods for Everyday Urban Life™

The Company primarily owns, develops and manages properties located in Canada's key urban neighbourhood markets that provide consumers with products and services that are part of their everyday life. Currently, over 90% of the Company's revenues come from tenants who provide these essential products and services, including grocery stores, pharmacies, liquor stores, banks, restaurants, cafés, fitness centres, medical, childcare facilities and other professional and personal services.

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

In Management's view, shopping centres, including mixed-use properties with a meaningful retail component, located in urban markets with tenants who primarily provide non-discretionary goods and services, will be less sensitive to both economic cycles and changing retail trends, thus adding to the stability and growth of cash flow over the long term. Further, the Company will capitalize on the competitive advantages its assets offer as it increases population density within its core portfolio, looking beyond asset class to create high quality, super urban neighbourhoods.

Neighbourhoods for Everyday Urban Life™

	# OF STORES	% OF RENT	TENANTS
Grocery Stores	137	17.7%	Loblaws, Sobeys, metro, save on foods, Whole Foods Market, Longo's
Pharmacies	135	9.1%	Shoppers Drug Mart, Rexall, London Drugs, Jean Coutu, McKesson, Brunet
Liquor Stores	102	3.4%	LCBO, Beer Store, BC Liquor Store, SAQ, Alcanna, Western Cellars
Banks & Credit Unions	217	8.6%	TD, RBC, CIBC, BMO, Desjardins, National Bank
Restaurants and Cafes	1004	13.8 %	Tim Hortons, Recipe, freshii, aroma espresso bar
Medical, Professional & Personal Services	1503	14.8%	Alberta Health Services, ups, Allstate You're in good hands., H&R Block, First Choice Haircutters
Fitness Facilities	90	3.6%	GoodLife Fitness, Equinox Fitness Clubs, LA Fitness, Orangetheory Fitness, Anytime Fitness, SoulCycle
Daycare & Learning Centres	100	1.3%	Kumon Math. Reading. Success., brightpath, Oxford Learning, kids & company
Other Necessity-Based Retailers	571	18.4%	Canadian Tire, Walmart, Dollarama, GNC Live Well, Winners, PetSmart
Other Tenants	621	9.3%	Cineplex Entertainment, west elm, Sleep Country, Nordstrom, Sherwin Williams, Chanel

E-Commerce Proof ~34%

As at December 31, 2018

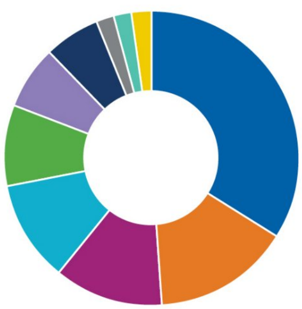
Super Urban Focus

The Company targets specific urban markets within cities in Canada with growing populations. Specifically, the Company intends to continue to operate primarily in and around its target urban markets which include the Greater Toronto Area; Greater Vancouver Area; Greater Montreal Area; Greater Edmonton Area; Greater Calgary Area; and the Greater Ottawa Area.

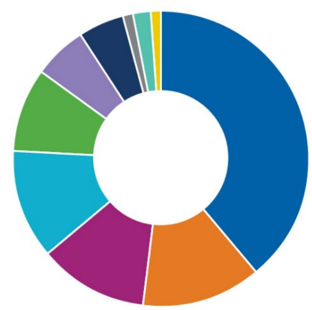
The Company has achieved critical mass in its target markets, which helps generate economies of scale and operating synergies, as well as deep local knowledge of its properties, tenants, neighbourhoods and markets in which it operates. Within each of these markets, the Company owns and targets well-located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

As the Company focuses investments on these super urban markets that fully integrate retail with other asset classes Management believes it will continue to optimize its portfolio to maintain the Company's best in class position.

Urban Markets



	% of Annual Minimum Rent	% of Portfolio Value
Greater Toronto Area	35%	40%
Greater Montreal Area	15%	14%
Greater Calgary Area	13%	12%
Greater Vancouver Area	10%	11%
Greater Edmonton Area	9%	9%
Greater Ottawa Area	7%	6%
Golden Horseshoe Area	6%	4%
Quebec City	2%	2%
Red Deer and Other	2%	1%
London / Windsor Area	1%	1%
Total	**100%**	**100%**



*as at December 31, 2018

Evolved Investment Strategy

The Company is continuing to increase investment in high-quality, super urban, mixed-use properties with a focus on building large positions in targeted high growth neighbourhoods. This will continue to enhance the Company's demographic profile through both investments and dispositions that are consistent with its investment strategy. The Company is targeting to have average population density of more than 300,000 people within five kilometers of its properties, within the next 24 months. This represents a 20% increase over its current average population density of 250,000.

Acquisitions

Management seeks to acquire well-located, high quality retail properties and sites in the Company's target urban markets. These properties are acquired to align with the evolved investment strategy, complement or add value to the existing portfolio or provide opportunity for redevelopment or repositioning. Once the Company has acquired a property in a specific trade area, with the appropriate population density, Management will look to acquire properties in close proximity. Over time, these properties form super urban neighbourhoods that integrate retail with other asset classes, and allow the Company to provide maximum flexibility to its tenant base to meet changing formats and size requirements over the long term. Adjacent properties also allow the Company to expand or intensify its existing property. They also provide more flexibility to offer the appropriate mix of uses, providing a better overall experience for consumers and residents in the neighbourhood. Management believes that its adjacent site acquisitions, and increased population density strategy, result in a stronger retail offering, more compelling neighbourhoods and, ultimately, a better long-term return on investment, with a lower level of risk.

Through acquisitions, the Company expands its presence in its target urban markets in Canada, and continues to generate greater economies of scale and leasing and operating synergies. Management will continue to look for strategic acquisitions, in both existing markets and strong trade areas within its existing urban markets where the Company does not yet have a presence.

Lending Activities

The Company provides co-owner financing, priority mortgages and mezzanine loans to third parties in connection with certain transactions and partnerships (collectively "Loans and Mortgages Receivable"). Such Loans and Mortgages Receivable are secured and often provide the Company with the opportunity to acquire full or partial interests in the underlying assets that are consistent with the Company's investment strategy through rights, options or negotiated transactions. Therefore, in addition to generating interest income and fees, the Company's lending activities provide an alternative means to obtaining purchase options and/or participation in projects which may otherwise have not been accessible. Additionally, from time to time the Company partners with experienced real estate lenders and investment companies whose primary business is lending which helps to mitigate risk.

Dispositions

To optimize the allocation of its capital and to advance its investment strategy, the Company selectively disposes of assets and reinvests the proceeds into new urban acquisitions and the development of the incremental density within its portfolio. The Company's development pipeline currently totals over 22.5 million square feet of incremental density.

The Company plans to complete strategic dispositions to provide capital for its investments program and to grow the value of its portfolio. The Company has an objective to sell 100% interests in properties that are deemed to be inconsistent with its evolved investment strategy. The Company also has an objective to sell 50% non-managing interests to institutional partners in certain stable but growing properties, to ultimately expand the Company's position in these markets without increasing its investment capital. Combined, these properties represent approximately 10% of the Company's total portfolio. Outcomes of achieving these objectives would be an increase in the weighting of large strategic assets and an incremental density pipeline that exceeds the Company's current leasable area of approximately 24 million square feet.

Development, Redevelopment and Land Use Intensification

The Company pursues selective development and redevelopment activities including land use intensification projects, primarily on its own, but also with partners. Redevelopment activities are focused primarily on well-located properties in dense urban neighbourhoods where Management believes the opportunity for value appreciation is greatest through the redevelopment of the asset into its highest and best use. These properties are redeveloped and expanded over time in conjunction with anchor tenant repositioning and changing retail environments. Redevelopment of existing properties generally carries a lower market risk due to the urban locations in which they are situated, an existing tenant base and the ability to increase density through land use intensification. Redevelopment projects are carefully managed to minimize tenant downtime. When possible, tenants continue to operate during the planning, zoning and leasing phases of the project with modest "holdover" income from tenants operating during this period. The Company will sometimes carry vacant space in a property for a planned future expansion of tenants or reconfiguration of a property.

Management believes that the Company's shopping centres, along with its portfolio of adjacent sites, give it a unique opportunity to participate in urban land use intensification in its various markets. The land use intensification trend in the Company's target urban markets is driven by the costs for municipalities to expand infrastructure beyond existing urban boundaries, the desire by municipalities to increase their tax base, environmental considerations and the migration of people to vibrant urban centres, a secular trend that is occurring in most major cities around the world. The Company's land use intensification activities are focused on increasing super urban neighbourhood development, including increasing retail space on a property and adding mixed-use density, including residential and office space. The Company has proven development and redevelopment capabilities across the country to enable it to capitalize on these opportunities and expects these land use intensification activities to increase over the next several years. To a lesser degree, the Company develops new properties on ground-up sites.

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

These development and land use intensification activities provide the Company with an opportunity to use its existing platform to sustain and increase cash flow and realize capital appreciation over the long term.

Proactive Management

The Company views proactive management of its portfolio as a core competency and an important part of its strategy. Proactive management means the Company continues to invest in properties to ensure that they remain competitive by attracting high quality retail tenants and their customers over the long term. Specifically, Management strives to create and maintain the highest standards in lighting, parking, access and general appearance of the Company's properties including the addition of public art and enhancing the connectivity to the local neighbourhood. The Company's proactive management strategies have historically contributed to improvements in occupancy levels and average lease rates throughout the portfolio. The Company is fully internalized and all value creation activities, including development management, leasing, property management, lease administration, legal, construction management and tenant co-ordination functions, are directly managed and executed by experienced real estate professionals employed by the Company.

The Company's executive leadership team is centralized at the Company's head office location in Toronto, which ensures that best practices, procedures and standards are applied consistently across the Company's operating markets. Property management and operations are executed through local operating platforms in all major urban markets. Real estate development and redevelopment, leasing, construction and to some degree acquisitions, are executed through local teams located in the Company's offices in Toronto, Montreal, and Calgary in order to effectively serve the major urban markets where First Capital Realty operates. In addition, the Company's management team possesses significant experience, which contributes to the Company's in-depth knowledge of its tenants and market trends.

Cost of Capital

The Company seeks to maintain financial strength and flexibility in order to support a competitive cost of debt and equity capital over the long term. The Company's capital structure is key to financing growth and providing sustainable cash dividends to its shareholders. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that First Capital Realty's capital structure composition of senior unsecured debt, mortgage debt, revolving credit facilities, bank indebtedness, and equity provides financing flexibility and reduces risks, while generating an attractive risk-adjusted return on investment, taking into account the long-term business strategy of the Company. The Company also recycles capital through the selective disposition of full or partial interests in properties. When it is deemed appropriate, the Company will raise equity to finance its growth and strengthen its financial position.

Since November 2012, DBRS Limited ("DBRS") has rated the Company's senior unsecured debentures as BBB (high), and Moody's has rated these debentures as Baa2. Management believes that this, along with the quality of the Company's real estate portfolio and other business attributes, contribute to reducing the Company's cost of capital.

OUTLOOK AND CURRENT BUSINESS ENVIRONMENT

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

Changing Consumer Habits

The Company continues to observe several demographic and other trends that may affect demand for retail goods and services, including an increasing reliance by consumers on online information to influence their purchasing decisions and an increasing desire to purchase products online, as well as an aging population which is increasingly focused on convenience and health-related goods and services. There is also a shift in consumer demand driven by an increasing number of ethnic consumers as a result of Canada's immigration policies.

Another trend that Management continues to observe is a desire for consumers to live in urban markets and to connect with others through daily or frequent activity, including trips to grocery stores, fitness centres, cafés, restaurants as well as other tenant categories in the Company's portfolio. With an evolved investment strategy, the Company will build on this shift, with a deeper focus on urban markets that fully integrate retail with other asset classes.

In addition, the retail market is experiencing a change in the consumer mindset with a growing emphasis on customer experience through events, digital innovation, sampling demonstrations and personalized premium service, allowing for more integration and connection between retailers and consumers. Retailers have responded to these changes with a renewed focus on improving the overall customer experience both online and in-store by leveraging technology. Management is proactively responding to these consumer changes through its tenant mix, unit sizes, shopping centre locations and designs.

Evolving Retail Landscape

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

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

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

Growth

In 2018, total assets grew 4.9% to $10.5 billion while total net operating income grew 3.9% over the prior year. In addition, the Same Property portfolio delivered net operating income growth of 3.1% compared to the prior year. The growth in Same Property net operating income was primarily due to rent escalations and increased occupancy. As at December 31, 2018, total portfolio occupancy increased 0.6% to 96.7% compared to 96.1% as at December 31, 2017. For the year ended December 31, 2018, the monthly average occupancy for the total portfolio was 96.3% compared to 94.9%, while the monthly average Same Property portfolio occupancy was 96.9% compared to 95.7% for the prior year, respectively.

Urban municipalities where the Company operates continue to focus on increasing density within the existing boundaries of infrastructure. This provides the Company with multiple development and redevelopment opportunities in its existing portfolio of urban properties, which includes an inventory of adjacent land sites and development land. Management has identified meaningful incremental density available for future redevelopment within its portfolio. As at December 31, 2018, the Company had identified approximately 22.5 million square feet of incremental density available in the portfolio for future development including 2.3 million square feet of commercial and 20.3 million square feet of residential space.

Development activities continue to provide the Company with growth within its existing portfolio of assets. These activities typically add density to the site and improve the quality of the property, which in turn leads to meaningful growth in property rental income. The Company's development activities primarily comprise redevelopments and expansions of existing properties in established trade areas in its target urban markets and will continue to be optimized as the Company concentrates investment capital towards higher population, greater density, urban neighbourhoods. These projects typically carry risk that is associated more with project execution rather than market risk, as projects are located in well-established urban communities with existing demand for goods and services. The Company has a long and successful track record of development activities and will continue to manage carefully the risks associated with such projects.

During the year, the Company transferred 283,000 square feet of new urban retail space as well as common areas from development to income-producing properties at a cost of $293.3 million. Occupied space was transferred at an average net rental rate of $37.33 per square foot, well above the average rate for the entire portfolio of $20.24.

The Company's evolved urban investment strategy will see the Company further focus investment in its highest value urban market assets, surfacing unrecognized value, and ultimately, looking beyond asset class to create high quality, urban neighbourhoods that Management believes will deliver value to investors, and ensure the Company grows its best in class position.

Transaction Activity

The property acquisition environment remains extremely competitive for assets of similar quality to those owned by the Company. There are typically multiple bids on high quality properties and asset valuations reflect strong demand for well-located income-producing assets. In addition, well-located urban properties rarely trade in the market and attract significant competition when they do. As a result, the urban property acquisitions completed by the Company typically do not provide material accretion to the Company's results in the immediate term. However, the Company will continue to selectively acquire high quality, well-located properties that add strategic value and/or operating synergies, provided that they will be accretive to FFO and net asset value over time. Therefore, the Company expects to focus on development and redevelopment of existing assets as the primary means to grow the portfolio while continuing to make selective acquisitions that complement the existing portfolio, when and if opportunities arise.

During the year, the Company acquired interests in sixteen properties, and one land parcel for $177.0 million, adding a total of 213,400 square feet of gross leasable area to the portfolio. Additionally, the Company invested $214.3 million in development and redevelopment activities.

The Company continues to evaluate its properties and to dispose of non-core properties. This allows the Company to redeploy capital into its core urban redevelopment projects where population, rent growth and consumer trends present the opportunity for better long-term growth.

During the year, the Company disposed of a 50.5% non-managing interest in a portfolio of six properties in London, Ontario as well as three land parcels and partial interests in two properties for $132.0 million. The Company also completed the sale of 19 properties that it owned through its joint venture interest in Main and Main Urban Realty for approximately $116.8 million at the Company's interest.

Financing Activity

During the year, the Company repaid $134.9 million of mortgages with a weighted average effective interest rate of 5.6% and secured $388.9 million of new mortgages with a weighted average effective interest rate of 3.7% and a weighted average term of 11.4 years.

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

On July 18, 2018, the Company issued 9.8 million common shares at a price of $20.50 for gross proceeds of $200.0 million which were raised to fund the acquisition of several properties and two development projects in the Company's core urban markets.

On August 30, 2018 and November 30, 2018, the Company repaid its 5.25% Series J and 4.95% Series K senior unsecured debentures totaling $150.0 million.

Pursuit of REIT Conversion

The Company has engaged legal and tax advisors to assist it in developing a structure for the Company to convert into a REIT. The Company believes a conversion will enhance long-term shareholder value by expanding its investor base and investment profile by being eligible for inclusion in various REIT-specific indices, REIT ETF's and REIT-dedicated investment funds, enhancing comparability with the Company's peers as well as providing a more efficient vehicle to deliver the benefits of urban real estate ownership from the Company's business to investors.

Any reorganization of the Company into a REIT will be subject to customary conditions, including the approval of the shareholders of the Company. The Company will make further announcement when the detailed terms of a reorganization are approved by the Board of Directors.

Income Tax

The Company completed $249 million of dispositions in 2018 which was higher than the $90 million it completed in 2017 and the three-year historical average of $84 million per year between 2015 and 2017. The decision to advance its investment strategy and accelerate dispositions has resulted in increased taxable income and greater usage of the Company's non-capital losses. The Company's non-capital losses declined by approximately $61 million during 2018. If the Company continues as a corporation in 2019, depending on its level of taxable income, it could recognize current income tax expense.

Outlook

Management is focused on the following areas to achieve its objectives through 2019 and into 2020:

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

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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

The Company builds value by creating and managing high quality properties with long-term appeal in neighbourhoods and communities that the Company believes will have a strong and growing customer base well into the future. Since 2011, the Company has published annual Corporate Responsibility and Sustainability ("CRS") Reports. These CRS reports are extensive and comply with the Global Reporting Initiative ("GRI"), an international non-profit organization whose mandate is to establish guidelines for CRS reports. The Company is proud to be Canada's first publicly traded real estate company to have issued a GRI-compliant CRS report. The Company's external auditor Ernst & Young LLP provides a statement of assurance on the CRS report annually.

In 2018, the Company ranked 4th in Corporate Knights' 'Future 40 Responsible Corporate Leaders in Canada' and has made the list for 5 consecutive years. For several years, the Company has responded to the Carbon Disclosure Project ("CDP"), disclosing information to the investment community on the Company's performance results in greenhouse gas emissions ("GHG"), energy use, and risks and opportunities from climate change and in 2018 also responded to the Global Real Estate Sustainability Benchmark ("GRESB"). The Company employs a full-time Director of Sustainability who is responsible for leading sustainability reporting initiatives and driving continuous environmental improvement.

The Company also takes a highly disciplined approach to the development and redevelopment of the Company's properties across Canada. In 2006, the Company embarked on the path towards sustainability by building new developments to

Leadership in Energy and Environmental Design ("LEED") standards subject to tenant acceptance. As at December 31, 2018, 123 projects comprising 3.8 million square feet of GLA were certified to LEED standards. The Company also has 77% of its portfolio by GLA, certified to the Building Owners and Managers Association Building Environmental Standards ("BOMA BEST"), validating our “best” practices for energy and environmental performance. Reducing energy and GHG emissions is a key part of the Company’s sustainability program. In 2016, the Company made a commitment to reduce its 2018 energy consumption and greenhouse gas emissions by 7.5% from a 2015 base year, weather-corrected, like-to-like portfolio. The Company has been working hard to meet this goal by implementing operational best practices and energy conservation measures, such as LED retrofits of parking lot and exterior lighting fixtures. At the end of 2018, the company had achieved a three-year energy reduction of 7% and GHG reduction of 11%. All of these initiatives enhance the properties’ environmental performance and many of them reduce operating costs, benefiting the Company's tenants and shareholders.

The Company is committed to connecting and contributing to the communities it serves and enhancing the experience in its shopping centres. For the past 7 years, the Company has embarked on public art projects across the country and through our collaboration with OCAD University, Emily Carr University of Art and Design, and Concordia University, the Company has sponsored public art competitions and has successfully completed 27 sculpture installations in prominent locations throughout our properties.

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

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

Proportionate Interest

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

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

Where noted, certain sections of this MD&A exclude the Company's proportionate share of Main and Main Urban Realty's ("MMUR") financial information to enhance the relevance of the information presented, as MMUR's business operations are not focused on operating stable income-producing properties at this time. Additionally, during 2018, MMUR completed the sale of the majority of its portfolio (19 of 23 properties) for approximately $116.8 million at the Company's interest.

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

Net Operating Income

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

Total Same Property NOI

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

Same Property — Stable NOI

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

Funds from Operations

Funds from Operations ("FFO") is a recognized measure that is widely used by the real estate industry, particularly by publicly traded entities that own and operate income-producing properties. The Company calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("REALPAC") as published in its most recent "White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS" dated February 2018. Management considers FFO a meaningful additional financial measure of operating performance, as it excludes fair value gains and losses on investment properties as well as certain other items included in the Company's net income that may not be the most appropriate determinants of the long-term operating performance of the Company, such as investment property selling costs, deferred income taxes, and any gains, losses or transaction costs recognized in business combinations. FFO provides a perspective on the financial performance of the Company that is not immediately apparent from net income determined in accordance with IFRS. A reconciliation from net income to FFO can be found in the "Non-IFRS Reconciliations and Financial Measures — FFO and ACFO" section of this MD&A.

Adjusted Cash Flow from Operations

Adjusted Cash Flow from Operations ("ACFO") is a supplementary measure the Company began using in 2017 to measure operating cash flow generated from the business. ACFO replaced the Company's previously reported Adjusted Funds from Operations ("AFFO") as its supplementary cash flow metric. The Company calculates ACFO in accordance with the recommendations of REALPAC as published in its most recent "White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS" dated February 2018.

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

Weighted average share count for FFO

For purposes of calculating per share amounts for FFO, the weighted average number of diluted shares outstanding is calculated assuming conversion of only those convertible debentures outstanding that would have a dilutive effect upon conversion, at the holders' contractual conversion price. As of February 28, 2018, the Company no longer has any convertible debentures outstanding.

FFO and ACFO Payout Ratios

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

Enterprise Value

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

Net Debt

Net debt is a measure used by Management in the computation of certain debt metrics, providing information with respect to certain financial ratios used in assessing the Company's debt profile. Net debt is calculated as the sum of principal amounts outstanding on credit facilities and mortgages, bank indebtedness and the par value of senior unsecured debentures reduced by the cash balances at the end of the period. Convertible debentures outstanding prior to February 28, 2018, were excluded as the Company had the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares. As of February 28, 2018, the Company no longer has any convertible debentures outstanding.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization

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

Unencumbered Aggregate Assets

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

OPERATING METRICS

The Company presents certain operating metrics and portfolio statistics in the MD&A, which include property count, property category, GLA, occupancy, weighted average rate per occupied square foot, top 40 tenants, development pipeline, and renewal activities. The Company uses these operating metrics to monitor and measure operational performance period over period. To align the Company's GLA reporting with its ownership interest in its properties, unless otherwise noted, all GLA is presented at the Company's ownership interest (23.9 million square feet at its ownership interest compared to 25.5 million square feet at 100% as at December 31, 2018). These metrics exclude the operating metrics related to the Company's interest in MMUR as its business operations are not focused on operating stable income-producing properties at this time. Furthermore, during 2018, MMUR completed the sale of the majority of its portfolio (19 of 23 properties) for approximately $116.8 million at the Company's interest.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

	2018	2017	2016
Revenues, Income and Cash Flows [1]			
Revenues and other income	**$ 756,024**	$ 722,860	$ 695,925
NOI [2]	**$ 454,773**	$ 437,510	$ 421,997
Increase (decrease) in value of investment properties, net	**$ 102,389**	$ 458,363	$ 218,078
Net income attributable to common shareholders	**$ 343,606**	$ 633,089	$ 382,714
Net income per share attributable to common shareholders (diluted)	**$ 1.37**	$ 2.55	$ 1.59
Weighted average number of common shares – diluted – IFRS (in thousands)	**250,802**	249,413	246,428
Cash provided by operating activities	**$ 283,012**	$ 270,159	$ 256,598
Dividends			
Dividends	**$ 215,537**	$ 210,433	$ 204,233
Dividends per common share	**$ 0.860**	$ 0.860	$ 0.860

As at December 31	2018	2017	2016
Financial Information [1]			
Investment properties – shopping centres [3]	**$ 9,690,179**	$ 9,317,306	$ 8,453,348
Investment properties – development land [3]	**$ 78,096**	$ 79,053	$ 67,149
Hotel property	**$ 58,604**	$ —	$ —
Total assets	**$ 10,453,055**	$ 9,968,552	$ 9,104,553
Mortgages [3]	**$ 1,285,908**	$ 1,060,339	$ 997,165
Credit facilities	**$ 626,172**	$ 581,627	$ 251,481
Senior unsecured debentures	**$ 2,447,278**	$ 2,595,966	$ 2,546,442
Convertible debentures	**$ —**	$ 54,293	$ 207,633
Shareholders' equity	**$ 4,978,242**	$ 4,647,071	$ 4,195,263
Capitalization and Leverage			
Shares outstanding (in thousands)	**254,828**	244,431	243,507
Enterprise value [2]	**$ 9,239,000**	$ 9,480,000	$ 9,162,000
Net debt to total assets [2] [4]	**42.1%**	43.4%	42.6%
Weighted average term to maturity on mortgages and senior unsecured debentures (years)	**5.5**	5.4	5.3

As at December 31	2018	2017	2016
Operational Information			
Number of properties	**166**	161	160
GLA (square feet) – at 100%	**25,456,000**	25,390,000	25,278,000
GLA (square feet) – at ownership interest	**23,854,000**	23,991,000	23,820,000
Occupancy – Same Property – stable (2)	**97.1%**	96.9%	96.3%
Total portfolio occupancy	**96.7%**	96.1%	94.9%
Development pipeline and adjacent land (GLA) (5) (6)			
Commercial pipeline (primarily retail)	**2,287,000**	2,862,000	2,993,000
Residential pipeline	**20,262,000**	18,856,000	10,856,000
Average rate per occupied square foot	**$ 20.24**	$ 19.69	$ 19.30
GLA developed and brought online - at ownership interest	**283,000**	131,000	202,000
Same Property – stable NOI – increase (decrease) over prior period (2) (7)	**2.7%**	2.0%	0.8%
Total Same Property NOI – increase (decrease) over prior period (2) (7)	**3.1%**	2.5%	1.1%
Funds from Operations (2) (4)			
FFO	**$ 302,971**	$ 284,110	$ 262,544
FFO per diluted share	**$ 1.21**	$ 1.16	$ 1.11
FFO payout ratio	**71.1%**	74.2%	77.4%
Weighted average number of common shares – diluted – FFO (in thousands)	**250,474**	245,153	236,243
Adjusted Cash Flow from Operations (2) (4)			
ACFO	**$ 267,168**	$ 243,645	$ 231,985
ACFO payout ratio on a rolling four quarter basis	**79.6%**	86.0%	86.1%

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

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

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

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

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

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

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

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

Investment Property Categories

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

Total Same Property consisting of:

> *Same Property* **–** *stable* **–** includes stable properties where the only significant activities are leasing and ongoing maintenance. Properties that will be undergoing a redevelopment in a future period, including adjacent parcels of land, and those having planning activities underway are also in this category until such development activities commence. At that time, the property will be reclassified to either Same Property with redevelopment or to major redevelopment.
>
> *Same Property with redevelopment* **–** includes properties that are largely stable, including adjacent parcels of land, but are undergoing incremental redevelopment or expansion activities (pads or building extensions) which intensify the land use. Such redevelopment activities often include façade, parking, lighting and building upgrades.

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

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

Acquisitions and dispositions **–** consists of properties acquired during the period including those in close proximity to existing shopping centres. Dispositions include information for properties disposed of in the period.

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

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

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

Portfolio Overview

As at December 31, 2018, the Company had interests in 166 properties, which were 96.7% occupied with a total GLA of 25.5 million square feet (23.9 million square feet at the Company's ownership interest) and a fair value of $9.7 billion as well as development land with a fair value of $78.1 million. This compares to 161 properties, which were 96.1% occupied with a total GLA of 25.4 million square feet (24.0 million square feet at the Company's ownership interest) and a fair value of $9.3 billion and $79.1 million, respectively, as at December 31, 2017. As at December 31, 2018, the average size of the properties is approximately 153,000 square feet, ranging from approximately 6,200 to over 548,000 square feet.

The Same Property portfolio includes properties sub-categorized in Same Property – stable and Same Property with redevelopment. The Same Property portfolio is comprised of 146 properties with a GLA of 21.9 million square feet (20.6 million square feet at the Company's ownership interest) and a fair value of $7.6 billion. These properties represent 88.0% of the Company's property count, 86.2% of its GLA at the Company's ownership interest and 78.1% of its fair value as at December 31, 2018.

The balance of the Company's real estate assets consists of properties which are in various stages of redevelopment, properties acquired in 2018 or 2017 and properties in close proximity to them, as well as properties held for sale.

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

As at	**December 31, 2018**				December 31, 2017			
	Number of Properties	**GLA (000s sq. ft.)**	**Occupancy**	**Weighted Average Rate per Occupied Square Foot**	Number of Properties	GLA (000s sq. ft.)	Occupancy	Weighted Average Rate per Occupied Square Foot
Same Property – stable	**132**	**17,545**	**97.1%**	**$ 19.76**	132	17,538	96.9%	$ 19.52
Same Property with redevelopment	**14**	**3,025**	**97.3%**	**19.12**	14	2,978	96.7%	18.46
Total Same Property	**146**	**20,570**	**97.1%**	**19.67**	146	20,516	96.9%	19.37
Major redevelopment	**10**	**2,325**	**93.0%**	**24.31**	10	2,287	90.3%	23.15
Ground-up development	**1**	**147**	**98.8%**	**29.93**	1	112	97.4%	29.70
Acquisitions – 2018	**6**	**202**	**93.9%**	**24.91**	—	—	—%	—
Acquisitions – 2017	**2**	**287**	**94.1%**	**32.63**	2	269	93.7%	29.99
Investment properties classified as held for sale	**1**	**323**	**97.5%**	**10.91**	1	367	90.5%	10.47
Dispositions – 2018	**—**	**—**	**—%**	**—**	1	440	96.8%	16.62
Total	**166**	**23,854**	**96.7%**	**$ 20.24**	161	23,991	96.1%	$ 19.69

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

As at	December 31, 2018							December 31, 2017						
(millions of dollars, except other data)	**Number of Properties**	**GLA (000s sq. ft.)**	**Fair Value[1]**	**% of Total Fair Value**	**Occupancy**	**Weighted Average Rate per Occupied Square Foot**	**% of Annual Minimum Rent**	Number of Properties	GLA (000s sq. ft.)	Fair Value[1]	% of Total Fair Value	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent
Central Region														
Greater Toronto Area	**50**	**6,956**	**$ 3,949**	**40%**	**97.0%**	**$ 23.93**	**35%**	47	6,806	$ 3,593	38%	97.2%	$ 22.97	34%
Golden Horseshoe Area	**8**	**1,601**	**439**	**4%**	**98.8%**	**16.39**	**6%**	8	1,601	446	5%	99.0%	16.21	6%
London/Windsor Area [2]	**7**	**504**	**116**	**1%**	**97.9%**	**14.31**	**1%**	7	733	179	2%	94.6%	15.49	2%
	65	**9,061**	**4,504**	**45%**	**97.4%**	**22.03**	**42%**	62	9,140	4,218	45%	97.3%	21.18	42%
Eastern Region														
Greater Montreal Area	**32**	**4,384**	**1,278**	**14%**	**95.3%**	**16.73**	**15%**	32	4,441	1,235	13%	93.0%	16.37	15%
Greater Ottawa Area	**13**	**1,902**	**588**	**6%**	**96.6%**	**18.24**	**7%**	12	1,990	569	6%	97.1%	17.17	7%
Quebec City	**5**	**995**	**186**	**2%**	**94.1%**	**11.27**	**2%**	5	994	190	2%	93.6%	11.10	2%
Other	**2**	**219**	**45**	**—%**	**88.4%**	**14.21**	**1%**	2	220	44	—%	94.6%	13.93	1%
	52	**7,500**	**2,097**	**22%**	**95.3%**	**16.33**	**25%**	51	7,645	2,038	21%	94.2%	15.78	25%
Western Region														
Greater Calgary Area	**17**	**2,694**	**1,181**	**12%**	**97.2%**	**22.61**	**13%**	16	2,505	1,119	12%	96.9%	22.71	12%
Greater Vancouver Area	**19**	**2,033**	**1,108**	**11%**	**97.3%**	**24.18**	**10%**	19	2,145	1,111	12%	96.1%	23.44	11%
Greater Edmonton Area	**12**	**2,323**	**863**	**9%**	**98.1%**	**19.27**	**9%**	12	2,312	830	9%	97.1%	19.39	9%
Red Deer	**1**	**243**	**77**	**1%**	**96.5%**	**21.58**	**1%**	1	244	80	1%	92.0%	20.28	1%
	49	**7,293**	**3,229**	**33%**	**97.5%**	**21.94**	**33%**	48	7,206	3,140	34%	96.6%	21.78	33%
Total	**166**	**23,854**	**$ 9,830**	**100%**	**96.7%**	**$ 20.24**	**100%**	161	23,991	$ 9,396	100%	96.1%	$ 19.69	100%

(1) At the Company's proportionate interest, excluding development land and the fair value of MMUR's shopping centre properties of $43 million as at December 31, 2018 and $58 million as at December 31, 2017. Includes hotel property at net book value as at December 31, 2018.

(2) In the first quarter of 2018, the Company disposed of a 50.5% non-managing interest in a portfolio of six properties in London, Ontario.

Among the Company's real estate investment portfolio are thirty-seven (2017 - thirty-three) retail assets each with a value greater than $85 million or size greater than 300,000 square feet. Together, these thirty-seven retail assets comprise $5.3 billion (2017 - $4.7 billion) or 55% (2017 - 50%) of the Company's aggregate $9.7 billion shopping centre portfolio asset value (2017 - $9.3 billion). These assets, as a percentage of the Company's aggregate value, reflects the Company's focus on larger, but fewer strategic assets in its target urban markets.

Investment Properties – Shopping Centres

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

	Year ended December 31	
(millions of dollars)	**2018**	2017
Balance at beginning of year	**$ 9,317**	$ 8,453
Acquisitions		
Shopping centres and additional adjacent spaces	**130**	287
Development activities and property improvements	**259**	226
Reclassifications from development land	**11**	—
Increase (decrease) in value of investment properties, net	**88**	452
Dispositions	**(123)**	(90)
Reclassification to equity accounted joint ventures [1]	**—**	(14)
Other changes	**8**	3
Balance at end of year [2]	**$ 9,690**	$ 9,317

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

[2] Includes investment properties classified as held for sale as at December 31, 2018 and 2017 totaling $66 million and $91 million, respectively.

2018 Acquisitions

Income-producing properties and Additional Adjacent Spaces

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

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

[1] The acquisition of the hotel property was accounted for as a business combination under IFRS 3 "Business Combinations". Refer to Note 5 of the audited consolidated financial statements for further details. GLA represents retail space only.

Development Properties

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

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

2017 Acquisitions

Income-producing Properties – Shopping Centres and Additional Adjacent Spaces

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

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

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

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

2018 Dispositions

During the year ended December 31, 2018, the Company disposed of a 50.5% non-managing interest in a portfolio of six properties in London, Ontario as well as three land parcels, a partial interest in the Vancouver property planned for redevelopment and its interest in West Oaks Shopping Centre for $132.0 million, as summarized in the table below:

Count	Property Name	City/Province	Quarter Sold	Interest Sold	GLA (sq. ft.)	Acreage	Gross Sales Price (in millions)
1.	Eagleson Cope Drive (land)	Ottawa, ON	Q1	100%	102,900	11.2	
2.	Wellington Corners	London, ON	Q1	50.5%	40,800	7.0	
3.	Sunningdale Village	London, ON	Q1	50.5%	36,600	6.0	
4.	Byron Village	London, ON	Q1	50.5%	44,000	6.0	
5.	Hyde Park Plaza	London, ON	Q1	50.5%	26,100	5.0	
6.	Stoneybrook Plaza	London, ON	Q1	50.5%	27,900	4.9	
7.	Adelaide Shoppers	London, ON	Q1	50.5%	9,700	1.7	
8.	130 Michael Cowpland Drive (land)	Ottawa, ON	Q1	100%	—	1.4	
9.	200 West Esplanade	Vancouver, BC	Q3	50%	19,200	0.2	
10.	West Oaks Shopping Centre	Abbotsford, BC	Q4	50%	132,500	9.3	
11.	1071 King Street W. (land)	Toronto, ON	Q4	33%	—	0.2	
	Total				439,700	52.9	$ 132.0

2017 Dispositions

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

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

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

Impact of Acquisitions and Dispositions

The annualized NOI of properties acquired and disposed, at the time of acquisition or disposition, during the years ended December 31, 2018 and 2017 is summarized in the table below:

	Acquired		Disposed	
For the year ended December 31	**2018**	2017	**2018**	2017
Central Region	**$ 1,765**	$ 10,268	**$ 3,656**	$ 1,442
Eastern Region	**241**	4,412	**570**	1,072
Western Region	**2,947**	317	**2,722**	1,199
Total	**$ 4,953**	$ 14,997	**$ 6,948**	$ 3,713

Capital Expenditures

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

Revenue sustaining capital expenditures are required for maintaining the Company's property infrastructure and revenues from leasing of existing space. Revenue sustaining capital expenditures are generally not recoverable from tenants. However, certain leases provide the ability to recover from tenants, over time, a portion of capital expenditures to maintain the physical aspects of the Company's properties. Revenue sustaining capital expenditures generally include tenant improvement costs related to new and renewal leasing, and capital expenditures required to maintain the physical aspects of the properties, such as roof replacements and resurfacing of parking lots.

Revenue enhancing capital expenditures are those expenditures that increase the revenue generating ability of the Company's properties. Revenue enhancing capital expenditures are incurred in conjunction with or in contemplation of a development or redevelopment strategy, a strategic repositioning after an acquisition, or in advance of a planned disposition to maximize the potential sale price. The Company owns and actively seeks to acquire older, well-located properties in urban locations, where expenditures tend to be higher when they are subsequently repaired or redeveloped to meet the Company's standards.

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

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

Year ended December 31			**2018**	2017
	Total Same Property	**Other Property Categories**	**Total**	Total
Revenue sustaining	**$ 15,523**	**$ —**	**$ 15,523**	$ 21,781
Revenue enhancing	**18,911**	**13,565**	**32,476**	42,699
Expenditures recoverable from tenants	**6,210**	**1,735**	**7,945**	9,701
Development expenditures	**23,474**	**190,840**	**214,314**	157,724
Total	**$ 64,118**	**$ 206,140**	**$ 270,258**	$ 231,905

During the year ended December 31, 2018, capital expenditures totaled $270.3 million compared to $231.9 million for the prior year. The $38.4 million increase was primarily due to increased development spend related to King High Line, the Yorkville street assets, and Mount Royal West development projects, partially offset by lower spend on revenue enhancing and revenue sustaining expenditures.

Valuation of Investment Properties

During the year ended December 31, 2018, the weighted average stabilized capitalization rate of the Company's investment property portfolio remained unchanged from 5.3% as at December 31, 2017. The net increase in the fair value of investment properties of $102.4 million was primarily due to stabilized NOI growth and to a lesser extent the compression of stabilized capitalization rates in select urban markets for the year ended December 31, 2018.

The values of the Company's shopping centres and associated stabilized capitalization rates by region were as follows as at December 31, 2018 and December 31, 2017:

As at December 31, 2018		Stabilized Capitalization Rate			
(millions of dollars)	**Number of Properties**	**Weighted Average**	**Median**	**Range**	**Fair Value**
Central Region	**65**	**5.0%**	**5.3%**	**3.0%-7.0%**	**$ 4,431**
Eastern Region	**52**	**5.9%**	**6.0%**	**4.4%-7.8%**	**2,030**
Western Region	**49**	**5.2%**	**5.3%**	**3.8%-6.3%**	**3,229**
Total or Weighted Average	**166**	**5.3%**	**5.5%**	**3.0%-7.8%**	**$ 9,690**

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

Properties Under Development

Development and redevelopment activities are completed selectively, based on opportunities in the Company's properties or in the markets where the Company operates. The Company's development activities include redevelopment of stable properties, major redevelopment, and ground-up projects. Additionally, properties under development include land with future development potential. All development activities are strategically managed to reduce risk, and properties are generally developed after obtaining anchor tenant lease commitments. Individual buildings within a development are generally constructed only after obtaining commitments on a substantial portion of the space.

Development Pipeline

As at December 31, 2018, the Company's portfolio is comprised of 23.9 million square feet of GLA at the Company's ownership interest. Substantially all of this GLA is located in Canada's six largest urban growth markets which are undergoing significant land use intensification. As such, Management has identified meaningful incremental density available for future development within its existing portfolio. As at December 31, 2018, Management had identified approximately 22.5 million square feet of incremental density. This incremental density represents an opportunity that is almost as large as the Company's existing portfolio.

Management undertakes a quarterly review of its entire portfolio and updates all of its future uncommitted incremental density. Management stratifies the density by project commencement time frame. Medium term includes project commencement expected within the next 7 years, long term between 8 and 15 years and very long term beyond 15 years. The Company's incremental density is classified by type between commercial and residential. Commercial density primarily consists of retail density.

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

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

As at December 31, 2018	Square feet (in thousands)		
	Commercial	Residential	Total
Active Development			
Same Property with redevelopment	10	—	10
Major redevelopment	96	—	96
Ground-up development	81	162	243
	187	**162**	**349**
Future uncommitted incremental density			
Medium term	900	3,600	4,500
Long term	1,000	11,500	12,500
Very long term	200	5,000	5,200
	2,100	**20,100**	**22,200**
Total development pipeline	**2,287**	**20,262**	**22,549**

The Company determines its course of action with respect to the 20.1 million square feet of uncommitted potential residential density on a case by case basis given the specifics of each property. The Company’s course of action for each property may include selling the property, selling the residential density rights, entering into a joint venture with a partner to develop the property or undertaking the development of the property on its own. Approximately 2.9 million of the Company's 22.5 million square feet of identified incremental density has been included as part of the fair value of investment properties on the consolidated balance sheet. The 2.9 million square feet is comprised of 0.3 million square feet in active development which is valued as part of the overall property and 2.6 million of uncommitted incremental density valued at approximately $157 million. The remaining 19.6 million square feet of identified incremental density is expected to be included in the future, based on certain factors including the expiry or removal of tenant encumbrances and zoning approvals. The majority of the incremental residential density is located above income producing shopping centers or their parking areas. As such, the Company takes a measured approach with a view to maximizing long term value when obtaining zoning approvals based on the redevelopment plans for its portfolio as a whole.

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

Invested Cost of Properties Under Development

As at December 31, 2018, the Company had $584.0 million of properties under development and development land parcels at invested cost, representing approximately 6.0% of the value of the total investment property portfolio.

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

As at December 31, 2018			Invested Cost (in millions)		
	Number of Projects	Square Feet [1] [2] (in thousands)	Active Development	Pre-Development	Total
Same Property with redevelopment	2	10	$ 4	$ —	$ 4
Major redevelopment	3	96	61	77	138
Ground-up development	2	243	171	2	173
Total development and redevelopment activities	**7**	**349**	**$ 236**	**$ 79**	**$ 315**
Total development land, adjacent land parcels, and other [3]				$ 269	$ 269
Total				**$ 348**	**$ 584**

[1] Includes 162,000 square feet of residential rental apartments.

[2] Square footage relates to active development only.

[3] Includes all other property categories.

2018 Development and Redevelopment Coming Online and Space Going Offline

Development and redevelopment coming online includes both leased and unleased space transferred from development to income-producing properties at completion of construction. Costs transferred to income-producing properties often involves judgment in cost allocations related to the space transferred in the period. Therefore, the cost per square foot transferred in any one period may not be indicative of the total project cost per square foot.

During the year ended December 31, 2018, the Company completed the transfer of 283,000 square feet of new urban retail space as well as common areas from development to the income-producing portfolio at a cost of $293.3 million. Of the space transferred, 253,000 square feet became occupied at an average rental rate of $37.33 per square foot, well above the average rate for the portfolio of $20.24.

For the year ended December 31, 2018, the Company had tenant closures for redevelopment of 100,000 square feet at an average rental rate of $10.18 per square foot. Of the 100,000 square feet, 34,000 square feet was demolished.

Active Development and Redevelopment Activities

The Company's properties with development and redevelopment activities currently in progress are expected to have a weighted average going-in NOI yield of 5.1% upon completion. This yield is derived from the expected going-in run rate based on stabilized leasing and operations following completion of the development, and includes all building cost, land cost incremental to the development, interest and other carrying costs, as well as capitalized staff compensation and other expenses. However, actual rates of return could differ if development costs are higher or lower than currently forecasted costs, if final lease terms are higher or lower than forecasted base rent, operating cost or property tax recoveries, or if there are other unforeseen events that cause actual results to differ from assumptions. The quality of the Company's construction is consistent with its strategy of long-term ownership and value creation, and factors in the Company's high standards in construction, materials, architecture, lighting, parking, access, pedestrian amenities, accessibility, as well as development to LEED standards.

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

Same Property with Redevelopment

The Company currently has two projects under active development in the Same Property with redevelopment property category. Of the 10,000 square feet under active redevelopment, 7,400 square feet is subject to committed leases.

Highlights of the Company's Same Property with redevelopment projects as at December 31, 2018 are as follows:

As at December 31, 2018				Invested Cost (in millions)		
Count/Project and Major Tenant(s)		Square Feet Under Development (in thousands)	Target Completion Date [1]	Total Estimated incl. Land	Under Development	Estimated Cost to Complete
	Active development					
1.	South Park Centre, Edmonton, AB	5	H1 2019	3	2	1
	(Jollibee)					
2.	Lakeview Plaza, Calgary, AB	5	H1 2019	3	2	1
	(Pet Valu)					
	Total Same Property with redevelopment	**10**		**$ 6**	**$ 4**	**$ 2**

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

Major Redevelopment

The Company has three projects under active development in the major redevelopment property category. Of the approximately 96,000 square feet under active redevelopment, 58,000 square feet is subject to committed leases at a weighted average rate of $24.40 per square foot. As construction on redevelopment projects occurs in phases, there continues to be ongoing negotiations in various stages with certain retailers for the remaining planned space.

Highlights of the Company's major redevelopment projects underway as at December 31, 2018, including costs for completed phases, are as follows:

As at December 31, 2018								
	Square feet (in thousands)				Invested Cost (in millions)			
Count / Property and Major Tenant(s)	Planned Upon Completion	Completed or Existing	Under Development	Target Completion Date [1]	Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete
Active development								
1. 3080 Yonge Street, Toronto, ON	245	227	18	H2 2019	$ 135	$ 19	$ 112	4
(Loblaws, Tim Hortons, Anatomy Fitness)								
2. Semiahmoo Shopping Centre, Surrey, BC	288	227	61	H2 2019	127	30	76	21
(Crunch Fitness, Winners, CEFA Day Care)								
3. Wilderton, Montreal, QC [2]	132	115	17	H2 2022	58	12	17	29
(Metro, Pharmaprix, Tim Hortons, SAQ)								
Total Major Redevelopment	**665**	**569**	**96**		**$ 320**	**$ 61**	**$ 205**	**$ 54**

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

(2) Target completion date reflects future phases.

Ground-up Development

The Company has two projects under active development in the ground-up development property category. These projects are comprised of approximately 243,000 square feet of space currently under development, of which 81,000 square feet is retail space and 162,000 square feet is residential rental apartments. A total of 30,900 square feet of the retail space currently under development is subject to committed leases at a weighted average rate of $26.60 per square foot. As construction on ground-up developments occurs in phases, there continues to be ongoing negotiations in various stages with retailers for the planned space. Leasing of the residential space began in the second half of 2018 and will continue in 2019.

Highlights of the Company's ground-up projects underway as at December 31, 2018, including costs for completed phases, are as follows:

As at December 31, 2018								
	Square feet (in thousands)				Invested Cost (in millions)			
Count/Project and Major Tenant(s)	Planned Upon Completion	Completed or Existing	Under Development	Target Completion Date [1]	Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete
Active development								
1. The Brewery District, Edmonton, AB [2] [3]	151	121	30	H2 2019	$ 99	$ 19	$ 77	$ 3
(Loblaws City Market, GoodLife Fitness, Winners)								
2. King High Line (Shops at King Liberty), Toronto, ON [2] [4]	239	26	213	H2 2019	199	152	29	18
(Longo's, Canadian Tire, Shoppers Drug Mart, Winners, Kids & Company)								
Total Ground-up Development	**390**	**147**	**243**		**$ 298**	**$ 171**	**$ 106**	**$ 21**

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

(2) The Company has a 50% ownership interest in the property.

(3) Target completion date relates to buildings currently under construction.

(4) The square feet under development comprises 51,000 square feet of retail and 162,000 square feet of residential space. The Company and its development partner have entered into a binding agreement to sell, upon substantial completion, a 1/3 managing interest in the residential component of the property to Canadian Apartment Properties REIT.

Ground-up Development - Equity-Accounted Joint Ventures

In addition to the projects listed above, information regarding the ground-up development related to the Company's equity accounted investment can be found in the "Main and Main Urban Realty" section of this MD&A.

Residential Inventory

The Company has commenced a residential development project to build and sell fifty townhomes on land adjacent to the Company's Rutherford Marketplace property. The development is being managed by the Company's 50% development partner, who purchased 50% of the land in the fourth quarter of 2016. Total invested cost in the project at the Company's share is approximately $9.5 million at December 31, 2018. Total invested cost at completion is estimated to be $22.5 million with a target completion date in the first half of 2020.

Costs to Complete Active and Redevelopment Activities

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately $122 million. Costs to complete Same Property related developments are planned at $2 million. Costs to complete major redevelopments and ground-up developments, respectively, are planned at $32 million and $21 million in 2019, and $22 million thereafter. Costs to complete developments in other property categories are planned at $45 million.

Main and Main Urban Realty

MMUR, an equity accounted joint venture, is a Toronto and Ottawa urban development partnership between the Company, Main and Main Developments (itself, a partially owned venture between the Company and a private developer) and a prominent Canadian institutional investor. The Company's net economic interest in MMUR is 37.7%. Main and Main Developments was retained to provide asset and property management services for the real estate portfolio.

In the year ended December 31, 2018, MMUR completed the sale of 19 of its 23 properties for approximately $116.8 million at the Company's interest, and a portion of the loan to one of its joint venture partners was repaid. As at December 31, 2018, MMUR has one property classified as held for sale with an expected closing date within the next several months.

As at December 31, 2018 the Company's total investment in MMUR is approximately $36.3 million via its direct and indirect interests which includes a loan to one of its joint venture partners.

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

As at		**December 31, 2018**		December 31, 2017
Number of assemblies		**4**		23
Number of income-producing properties		**1**		8
Projects in active development / pre-development phase		**2/1**		2 / 13
GLA (square feet) (1)		**26,100**		156,100
Development pipeline and adjacent land (GLA) (1)				
Retail pipeline (1)		**32,983**		32,983
Residential pipeline (1)		**244,946**		244,946
Total investment properties - development (1)	**$**	**44,657**	$	27,240
Total investment properties - held for sale (1) (2)	**$**	**43,305**	$	150,107
Residential development inventory (1)	**$**	**—**	$	10,219
Total assets (1)	**$**	**95,918**	$	194,249
Credit facilities (1)	**$**	**5,643**	$	12,195
Credit facilities secured by investment properties held for sale (1)	**$**	**18,553**	$	60,635

Twelve months ended		**December 31, 2018**		December 31, 2017
Revenue and other income (1)	**$**	**4,888**	$	5,109
Expenses and property selling costs (1)	**$**	**4,654**	$	2,939
Increase (decrease) in value of investment properties (1)	**$**	**14,659**	$	23,435
Development expenditures (1)	**$**	**16,057**	$	11,132
Other capital expenditures (1)	**$**	**116**	$	575

(1) At the Company's 37.7% interest in MMUR.

(2) As at December 31, 2018 one income-producing property was held for sale. As at December 31, 2017 twenty properties were held for sale.

Ground-up Development

Through the Company's ownership interest in MMUR, the Company has commenced construction of a 40-storey residential rental tower and retail podium at Dundas and Aukland in Toronto, with a total expected GLA of 347,000 square feet, of which 295,000 is residential space and 52,000 is retail space. Total estimated costs for the project at the Company's ownership interest are $56.5 million and at December 31, 2018 estimated costs to complete are $41.6 million with a target completion date in the first half of 2021.

Leasing and Occupancy

As at December 31, 2018, total portfolio occupancy improved 0.2% to 96.7% while the Same Property portfolio occupancy was up 0.1% compared to September 30, 2018. The increase was primarily due to new tenants taking possession of approximately 224,000 square feet of space. Total portfolio occupancy increased 0.6% to 96.7% while the Same Property portfolio occupancy increased 0.2% to 97.1% compared to December 31, 2017.

For the year ended December 31, 2018, the monthly average occupancy for the total portfolio was 96.3% compared to 94.9%, and the Same Property portfolio occupancy was 96.9% compared to 95.7% for the prior year, respectively.

Occupancy of the Company's portfolio by property categorization was as follows:

As at	**December 31, 2018**			December 31, 2017		
(square feet in thousands)	**Total Occupied Square Feet**	**% Occupied**	**Weighted Average Rate per Occupied Square Foot**	Total Occupied Square Feet	% Occupied	Weighted Average Rate per Occupied Square Foot
Same Property – stable	**17,039**	**97.1% $**	**19.76**	16,993	96.9% $	19.52
Same Property with redevelopment	**2,943**	**97.3%**	**19.12**	2,880	96.7%	18.46
Total Same Property	**19,982**	**97.1%**	**19.67**	19,873	96.9%	19.37
Major redevelopment	**2,162**	**93.0%**	**24.31**	2,066	90.3%	23.15
Ground-up development	**145**	**98.8%**	**29.93**	109	97.4%	29.70
Investment properties classified as held for sale	**315**	**97.5%**	**10.91**	332	90.5%	10.47
Total portfolio before acquisitions and dispositions	**22,604**	**96.7%**	**20.05**	22,380	96.1%	19.63
Acquisitions – 2018	**190**	**93.9%**	**24.91**	—	—%	—
Acquisitions – 2017	**271**	**94.1%**	**32.63**	251	93.7%	29.99
Dispositions – 2018	**—**	**—%**	**—**	426	96.8%	16.62
Total [1]	**23,065**	**96.7% $**	**20.24**	23,057	96.1% $	19.69

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

During the three months ended December 31, 2018, the Company completed 825,000 square feet of lease renewals across the portfolio. The Company achieved a 9.2% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. For the three months ended December 31, 2018, the Company achieved a 11.9% lease renewal rate increase when comparing the net rental rate in the last year of the expiring term to the *average* net rental rate over the renewal term.

The average rental rate per occupied square foot for the total portfolio increased from $20.14 as at September 30, 2018 to $20.24 as at December 31, 2018 primarily due to rent escalations, renewal lifts and developments coming online. Management believes that the weighted average rental rate per square foot for the portfolio would be in the range of $25.00 to $27.00, if the portfolio were at market.

Changes in the Company's gross leasable area and occupancy for the total portfolio for the three months ended December 31, 2018 are set out below:

Three months ended December 31, 2018	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio [1]		
	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Under Redevelop-ment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	Total Square Feet (thousands)	Occupied Square Feet %	Weighted Average Rate per Occupied Square Foot
September 30, 2018 [2]	**19,941**	**97.0%**	**$ 19.56**	**3,034**	**93.7%**	**$ 23.93**	**43**	**0.2%**	**779**	**3.3%**	**23,797**	**96.5%**	**$ 20.14**
Tenant possession	178		15.75	46		22.18	—		(224)		—		17.08
Tenant closures	(149)		(16.37)	(20)		(20.39)	—		169		—		(16.84)
Tenant closures for redevelopment	—		—	(7)		(35.00)	7		—		—		(35.00)
Developments – tenants coming online [3]	9		30.61	64		29.52	—		13		86		29.65
Redevelopments – tenant possession	—		—	8		9.93	(8)		—		—		9.93
Demolitions	—		—	—		—	(7)		—		(7)		—
Reclassification	(1)		—	2		—	(2)		28		27		—
Total portfolio before Q4 2018 acquisitions and dispositions	19,978	97.1%	$ 19.66	3,127	93.7%	$ 24.10	33	0.1%	765	3.2%	23,903	96.7%	$ 20.26
Acquisitions (at date of acquisition)	4	100%	24.30	80	100.0%	14.80	—		—		84	100.0%	15.22
Dispositions (at date of disposition)	—	—%	—	(124)	93.4%	21.32	—		(9)		(133)	93.4%	21.32
December 31, 2018	**19,982**	**97.1%**	**$ 19.67**	**3,083**	**93.9%**	**$ 23.97**	**33**	**0.1%**	**756**	**3.2%**	**23,854**	**96.7%**	**$ 20.24**
Renewals	739		$ 19.29	86		$ 16.17					825		$ 18.96
Renewals – expired	(739)		$ (17.54)	(86)		$ (15.79)					(825)		$ (17.36)
Net change per square foot from renewals			$ 1.75			$ 0.38							$ 1.60
% Increase on renewal of expiring rents (first year of renewal term)			10.0%			2.4%							9.2%
% increase on renewal of expiring rents (average rate in renewal term)													11.9%

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

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

(3) For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2018 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

During the year ended December 31, 2018, the Company completed 2,868,000 square feet of lease renewals across the portfolio. The Company achieved a 8.4% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. For the year ended December 31, 2018, the Company achieved a 10.9% lease renewal rate increase when comparing the net rental rate in the last year of the expiring term to the *average* net rental rate over the renewal term.

The average rental rate per occupied square foot for the total portfolio increased from $19.69 as at December 31, 2017 to $20.24 as at December 31, 2018 primarily due to rent escalations, renewal lifts and developments coming online.

Changes in the Company's gross leasable area and occupancy for the total portfolio for the year ended December 31, 2018 are set out below:

Year ended December 31, 2018	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio [1]		
	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Under Redevelop-ment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	Total Square Feet (thousands)	Occupied Square Feet %	Weighted Average Rate per Occupied Square Foot
December 31, 2017 [2]	**19,873**	**96.9%**	**$ 19.37**	**3,184**	**91.6%**	**$ 21.72**	**151**	**0.6%**	**783**	**3.3%**	**23,991**	**96.1%**	**$ 19.69**
Tenant possession	477		18.82	123		20.28	—		(600)		—		19.12
Tenant closures	(432)		(17.12)	(119)		(19.71)	—		551		—		(17.68)
Tenant closures for redevelopment	—		—	(100)		(10.18)	100		—		—		(10.18)
Developments – tenants coming online [3]	44		32.75	209		38.28	—		30		283		37.33
Redevelopments – tenant possession	—		—	19		7.95	(19)		—		—		7.95
Demolitions	—		—	—		—	(107)		—		(107)		—
Reclassifications	11		—	—		—	(92)		(3)		(84)		—
Total portfolio before 2018 acquisitions and dispositions	19,973	97.1%	$ 19.66	3,316	94.1%	$ 23.00	33	0.1%	761	3.2%	24,083	96.7%	$ 20.14
Acquisitions (at date of acquisition)	9	100%	20.52	192	95.3%	24.26	—		9		210	95.5%	24.09
Dispositions (at date of disposition)	—	99.0%	—	(425)	96.8%	16.55	—		(14)		(439)	96.8%	16.55
December 31, 2018	**19,982**	**97.1%**	**$ 19.67**	**3,083**	**93.9%**	**$ 23.97**	**33**	**0.1%**	**756**	**3.2%**	**23,854**	**96.7%**	**$ 20.24**
Renewals	2,490		$ 18.66	378		$ 18.08					2,868		$ 18.58
Renewals – expired	(2,490)		$ (17.21)	(378)		$ (16.70)					(2,868)		$ (17.14)
Net change per square foot from renewals			$ 1.45			$ 1.38							$ 1.44
% Increase on renewal of expiring rents (first year of renewal term)			8.4%			8.3%							8.4%
% increase on renewal of expiring rents (average rate in renewal term)													10.9%
% Increase in rate per square foot – openings versus all closures			9.9%			21.2%							13.6%

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

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

(3) For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2018 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

Top Forty Tenants

As at December 31, 2018, 55.1% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2017 – 55.1%). Of these rents, 67.7% (December 31, 2017 – 63.3%) came from tenants that have investment grade credit ratings and who represent many of Canada's leading grocery stores, pharmacies, national and discount retailers, financial institutions and other familiar retailers. The weighted average remaining lease term for the Company's top 10 tenants was 6.9 years as at December 31, 2018, excluding contractual renewal options.

Rank	Tenant [(1)(2)]	Number of Stores	Square Feet (thousands)	Percent of Total Gross Leasable Area	Percent of Total Annualized Minimum Rent	DBRS Credit Rating	S&P Credit Rating	Moody's Credit Rating
1.	Loblaw Companies Limited ("Loblaw")	100	2,231	9.4%	10.0%	BBB	BBB	
2.	Sobeys	56	1,924	8.1%	6.1%	BB (high)	BB+	
3.	Metro	48	1,327	5.6%	3.9%	BBB	BBB	
4.	Canadian Tire	26	887	3.7%	2.8%	BBB (high)	BBB+	
5.	Walmart	15	1,491	6.2%	2.7%	AA	AA	Aa2
6.	TD Canada Trust	50	243	1.0%	2.1%	AA	AA-	Aa1
7.	RBC Royal Bank	45	248	1.0%	1.9%	AA	AA-	Aa2
8.	Dollarama	54	536	2.2%	1.9%	BBB		
9.	GoodLife Fitness	26	565	2.4%	1.8%			
10.	CIBC	38	207	0.9%	1.5%	AA	A+	Aa2
Top 10 Tenants Total		458	9,659	40.5%	34.7%			
11.	Save-On-Foods	9	323	1.4%	1.5%			
12.	McKesson	26	230	1.0%	1.3%		BBB+	Baa2
13.	LCBO	23	209	0.9%	1.2%	AA (low)	A+	AA3
14.	Lowe's	4	361	1.5%	1.1%	A (low)	BBB+	Baa1
15.	Restaurant Brands International	61	152	0.6%	1.1%		B+	B1
16.	Scotiabank	27	139	0.6%	1.1%	AA	A+	Aa2
17.	London Drugs	9	218	0.9%	1.0%			
18.	BMO	29	122	0.5%	1.0%	AA	A+	Aa2
19.	Longo's	5	178	0.7%	0.8%			
20.	Staples	10	237	1.0%	0.8%		B+	B1
21.	Winners	11	274	1.1%	0.8%		A+	A2
22.	Recipe Unlimited	30	127	0.5%	0.8%			
23.	Nordstrom	1	40	0.2%	0.7%	BBB (high)	BBB+	Baa1
24.	Starbucks	45	67	0.3%	0.7%		BBB+	Baa1
25.	SAQ	21	105	0.4%	0.6%	A (high)	AA-	Aa2
26.	Michaels	4	77	0.3%	0.6%		BB-	Ba2
27.	Subway	70	78	0.3%	0.5%			
28.	Whole Foods Market	2	90	0.4%	0.5%		A+	A3
29.	Pusateri's	1	35	0.1%	0.4%			
30.	The Beer Store	12	69	0.3%	0.4%	AA (low)	A+	Aa3
31.	McDonald's	22	87	0.4%	0.4%		BBB+	Baa1
32.	Toys "R" Us	3	127	0.5%	0.4%			
33.	Yum! Brands	30	50	0.2%	0.4%		BB	Ba3
34.	Alcanna Inc.	15	56	0.2%	0.4%			
35.	The Home Depot	2	153	0.6%	0.4%	A	A	A2
36.	Williams-Sonoma	2	38	0.2%	0.3%			
37.	Pet Valu	19	53	0.2%	0.3%			
38.	Bulk Barn	12	58	0.2%	0.3%			
39.	Equinox	2	38	0.2%	0.3%		B	B2
40.	National Bank	8	35	0.1%	0.3%	AA (low)	A	Aa3
Top 40 Tenants Total		**973**	**13,485**	**56.3%**	**55.1%**			

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

Lease Maturity Profile

The Company's lease maturity profile for its portfolio as at December 31, 2018, excluding any contractual renewal options, is as follows:

Maturity Date	Number of Stores	Occupied Square Feet (thousands)	Percent of Total Square Feet	Annualized Minimum Rent at Expiration (thousands)	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month tenants [1]	188	391	1.6%	$ 7,324	1.5%	$ 18.74
2019	692	2,128	8.9%	43,416	8.7%	20.41
2020	654	2,793	11.7%	57,008	11.4%	20.41
2021	539	2,240	9.4%	47,508	9.5%	21.21
2022	626	3,098	13.0%	69,359	13.9%	22.39
2023	614	3,505	14.7%	67,171	13.4%	19.16
2024	292	2,010	8.4%	39,837	8.0%	19.82
2025	201	1,031	4.3%	25,683	5.1%	24.90
2026	172	978	4.1%	25,814	5.2%	26.41
2027	178	1,180	4.9%	27,310	5.5%	23.15
2028	176	1,139	4.8%	30,800	6.2%	27.05
2029	79	636	2.7%	16,003	3.2%	25.17
Thereafter	84	1,936	8.2%	43,214	8.4%	22.31
Total or Weighted Average [2]	4,495	23,065	96.7%	$ 500,447	100.0%	$ 21.70

[1] Includes tenants on over hold including renewals and extensions under negotiation, month-to-month tenants and tenants in space at properties with future redevelopment.
[2] At the Company's ownership interest, excluding MMUR.

The weighted average remaining lease term for the portfolio was 6.5 years as at December 31, 2018, excluding contractual renewal options, but including month-to-month and other short-term leases.

Loans, Mortgages and Other Assets

As at	**December 31, 2018**	December 31, 2017
Non-current		
Loans and mortgages receivable classified as FVTPL (a)	**$ 20,511**	$ —
Loans and mortgages receivable classified as amortized cost (a)(b)	**57,003**	130,576
Other investments	**15,834**	2,587
Total non-current	**$ 93,348**	$ 133,163
Current		
Loans and mortgages receivable classified as FVTPL (a)	**$ 87,106**	$ —
Loans and mortgages receivable classified as amortized cost (a)(b)	**160,043**	125,265
FVTPL investments in securities (c)	**23,562**	21,720
Total current	**$ 270,711**	$ 146,985
Total	**$ 364,059**	$ 280,148

(a) Loans and mortgages receivable are primarily secured by interests in investment properties or shares of entities owning investment properties. Effective January 1, 2018, the Company reclassified certain loans and mortgages receivable to FVTPL from amortized cost upon adoption of IFRS 9.

(b) As at December 31, 2018, the Company's loans and mortgages receivable included $131.3 million representing the Company's share of $208.5 million of priority ranking mortgages on a development project at the southwest corner of Yonge Street and Bloor Street in Toronto, Ontario. A portion of the balance is due on September 1, 2019 with the remainder due on September 1, 2020 subject to early prepayment and extension provisions.

(c) From time to time, the Company invests in publicly traded real estate and related securities. These securities are recorded at market value. Realized and unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses).

RESULTS OF OPERATIONS

Net Operating Income

The Company's net operating income for its portfolio is presented below:

	Three months ended December 31			Year ended December 31		
	% change	**2018**	2017	**% change**	**2018**	2017
Property rental revenue						
Base rent		**$ 97,517**	$ 94,518		**$ 385,468**	$ 374,224
Operating cost recoveries		**22,168**	21,192		**87,828**	83,523
Realty tax recoveries		**29,192**	28,573		**117,333**	113,848
Lease surrender fees		**51**	170		**1,958**	1,568
Percentage rent		**935**	811		**3,049**	2,236
Prior year operating cost and tax recovery adjustments		**(655)**	(486)		**(1,695)**	(1,364)
Temporary tenants, storage, parking and other		**2,866**	3,266		**11,467**	11,443
Total Same Property rental revenue		**152,074**	148,044		**605,408**	585,478
Property operating costs						
Recoverable operating expenses		**24,284**	24,009		**96,438**	92,629
Recoverable realty tax expense		**31,883**	31,390		**127,160**	123,866
Prior year realty tax expense		**(782)**	(1,404)		**(2,759)**	(3,097)
Other operating costs and adjustments		**(286)**	(43)		**(645)**	(1,522)
Total Same Property operating costs		**55,099**	53,952		**220,194**	211,876
Total Same Property NOI [1]	**3.1%**	**$ 96,975**	$ 94,092	**3.1%**	**$ 385,214**	$ 373,602
Major redevelopment		**11,009**	11,071		**43,689**	44,688
Ground-up development		**668**	931		**2,769**	2,722
Acquisitions – 2018		**1,472**	—		**3,065**	—
Acquisitions – 2017		**1,788**	815		**6,385**	1,135
Investment properties classified as held for sale		**775**	725		**3,247**	3,274
Dispositions – 2018		**572**	1,683		**3,325**	6,665
Dispositions – 2017		**(73)**	237		**(2)**	2,505
Straight-line rent adjustment		**1,323**	1,566		**7,062**	2,684
Development land		**6**	217		**19**	235
NOI [1]	**2.9%**	**$ 114,515**	$ 111,337	**3.9%**	**$ 454,773**	$ 437,510
NOI margin		**62.0%**	62.8%		**62.3%**	63.0%

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

For the three months and year ended December 31, 2018, total NOI increased by $3.2 million and $17.3 million, respectively, compared to the prior years primarily due to SP NOI growth and increases in straight-line rent due to higher occupancy levels and new tenants taking possession of recently completed space. NOI margins have decreased by 0.8% and 0.7%, respectively, for the three months and year ended December 31, 2018 compared to the same prior year periods primarily due to lower prior year tax adjustments, higher operating costs, and lower margins on NOI related to the hotel property.

Same Property NOI Growth

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

	Three months ended December 31		Year ended December 31	
	2018	2017 [1]	**2018**	2017 [1]
Same Property – Stable	**2.1%**	2.0%	**2.7%**	2.0%
Same Property with redevelopment	**9.7%**	3.4%	**6.0%**	5.4%
Total Same Property NOI Growth	**3.1%**	2.2%	**3.1%**	2.5%

[1] Prior periods as reported; not restated to reflect current period property categories.

For the three months and year ended December 31, 2018, SP NOI increased by $2.9 million and $11.6 million, or 3.1% for both periods primarily due to rent escalations, increased occupancy, and pad developments coming online.

NOI by Region

NOI is presented by region as follows:

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

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

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

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

[1] Other items principally consist of intercompany eliminations.

Interest and Other Income

For the three months and year ended December 31, 2018, the Company's interest and other income totaled $6.2 million and $26.4 million, compared to $7.6 million and $28.4 million, respectively, for the same prior year periods. The decrease of $2.0 million over prior year was primarily due to lower interest earned as a result of lower loans and mortgages receivable outstanding, partially offset by higher dividends and distribution income from marketable securities.

Interest Expense

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

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Mortgages	**$ 12,227**	$ 11,525	**$ 46,212**	$ 47,244
Credit facilities	**5,100**	3,435	**18,652**	10,890
Senior unsecured debentures	**27,756**	30,071	**113,284**	115,798
Convertible debentures	**—**	730	**446**	5,150
Interest capitalized	**(5,929)**	(5,910)	**(25,354)**	(21,671)
Interest expense	**$ 39,154**	$ 39,851	**$ 153,240**	$ 157,411

For the three months ended December 31, 2018, interest expense decreased by $0.7 million primarily due to a reduction in outstanding unsecured and convertible debentures, partially offset by higher interest on credit facility borrowings and higher interest on mortgages.

For the year ended December 31, 2018, interest expense decreased by $4.2 million primarily due to the early redemption of higher rate convertible debentures.

During the years ended December 31, 2018 and 2017, approximately 14.2% or $25.4 million, and 12.1% or $21.7 million, respectively, of interest expense was capitalized to real estate investments for properties undergoing development or redevelopment projects. The increase in capitalized interest of $3.7 million is due to higher cumulative development expenditures and increased draws on construction facilities compared to the same prior year periods. Amounts capitalized are dependent on interest expense paid, on the phase and magnitude of development and redevelopment projects actively underway as well as the portfolio weighted average interest rate.

Corporate Expenses

The Company's corporate expenses is as follows:

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Salaries, wages and benefits	**$ 6,523**	$ 6,743	**$ 27,418**	$ 27,756
Non-cash compensation	**1,155**	1,128	**4,805**	4,258
Other corporate costs	**3,048**	3,166	**12,408**	11,630
Total corporate expenses	**10,726**	11,037	**44,631**	43,644
Amounts capitalized to investment properties under development	**(1,814)**	(1,750)	**(7,537)**	(7,202)
Corporate expenses	**$ 8,912**	$ 9,287	**$ 37,094**	$ 36,442

For the year ended December 31, 2018, corporate expenses increased by $0.7 million compared to the prior year primarily due to higher non-cash compensation.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development, including salaries and related costs for planning, zoning, construction and so forth, are capitalized in accordance with IFRS to development projects as incurred. During the years ended December 31, 2018 and 2017, approximately 16.9% or $7.5 million and 16.5% or $7.2 million, respectively, of compensation-related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment projects. Amounts capitalized are based on development and pre-development projects underway, and have increased due to a greater average number of development projects underway in 2018 vs the prior year.

Other Gains (Losses) and (Expenses)

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

Three months ended December 31	**2018**		2017	
	Consolidated Statement of Income	**Included in FFO**	Consolidated Statement of Income	Included in FFO
Realized gain (loss) on sale of marketable securities	**$ 43**	**$ 43**	$ (1,165)	$ (1,165)
Unrealized gain (loss) on marketable securities	**(876)**	**(876)**	1,408	1,408
Net gain (loss) on prepayments of debt	**—**	**—**	312	312
Proceeds from Target	**—**	**—**	474	474
Investment properties selling costs	**(660)**	**—**	(113)	—
REIT conversion costs	**(942)**	**(942)**	—	—
Other	**179**	**179**	264	263
Total per consolidated statement of income	**$ (2,256)**	**$ (1,596)**	$ 1,180	$ 1,292
Other gains (losses) and (expenses) under equity accounted joint ventures	**(29)**	**—**	—	—
Total at the Company's proportionate interest [3]	**$ (2,285)**	**$ (1,596)**	$ 1,180	$ 1,292

Year ended December 31	**2018**		2017	
	Consolidated Statement of Income	**Included in FFO**	Consolidated Statement of Income	Included in FFO
Realized gain (loss) on sale of marketable securities	**$ 4,232**	**$ 4,232**	$ (1,165)	$ (1,165)
Unrealized gain (loss) on marketable securities	**(623)**	**(623)**	3,313	3,313
Net gain (loss) on prepayments of debt (non-cash)	**(726)**	**(726)**	(3,032)	(3,032)
Gain on below market purchase [1]	**13,975**	**—**	—	—
Transaction costs [2]	**(2,052)**	**—**	—	—
Proceeds from Target	**—**	**—**	474	474
Investment properties selling costs	**(2,556)**	**—**	(1,667)	—
REIT conversion costs	**(1,540)**	**(1,540)**	—	—
Other	**23**	**23**	171	170
Total per consolidated statement of income	**$ 10,733**	**$ 1,366**	$ (1,906)	$ (240)
Other gains (losses) and (expenses) under equity accounted joint ventures	**(1,259)**	**(697)**	(8)	—
Total at the Company's proportionate interest [3]	**$ 9,474**	**$ 669**	$ (1,914)	$ (240)

[1] Exclude gain on below market purchase of hotel property in FFO in accordance with the recommendations of REALPAC.

[2] Exclude transaction costs incurred as part of hotel property acquisition in FFO in accordance with the recommendations of REALPAC.

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

For the three months ended December 31, 2018, the Company recognized $2.3 million in other losses and expenses in its consolidated statement of income compared to $1.2 million in other gains and expenses in 2017. The loss in the quarter was primarily due to net losses on marketable securities of $0.8 million, REIT conversion costs of $0.9 million, and investment property selling costs of $0.7 million. For the year ended December 31, 2018, the Company recognized $10.7 million in other gains in its consolidated statement of income compared to $1.9 million in other losses and expenses in the prior year. The gain for the year ended December 31, 2018 was primarily due to $11.9 million in net gains recognized on the purchase of the Hazelton Hotel, and net gains on marketable securities of $3.6 million, partially offset by investment property selling costs of $2.6 million, REIT conversion costs of $1.5 million, and a $0.7 million non-cash loss on the early redemption of the Series J convertible debentures.

The other loss of $1.3 million under equity accounted joint ventures for the year ended December 31, 2018 was primarily due to fees and selling costs related to the sale of the majority of the MMUR portfolio.

Income Taxes

For the three months and year ended December 31, 2018, deferred income tax expense totaled $16.4 million and $79.2 million, compared to $17.6 million and $125.1 million respectively, over the same prior year periods. The decrease in deferred income tax expense of $1.2 million and $46.0 million for the three months and year ended December 31, 2018, respectively, is primarily a result of lower gains on the fair value of investment properties over the same prior year periods.

As at December 31, 2018 the Company has approximately $49.9 million of non-capital losses which expire between 2026 and 2038. This balance declined from approximately $111.3 million at December 31, 2017 as the Company generated higher taxable income primarily as a result of increased dispositions in 2018 ($249 million versus $90 million of dispositions in 2017).

Net Income Attributable to Common Shareholders

For the three months ended December 31, 2018, net income attributable to common shareholders was $64.3 million or $0.25 per diluted share compared to $74.8 million or $0.30 per diluted share for the prior year. The $10.5 million decrease in net income attributable to common shareholders was primarily due to a lower share of profit from joint ventures of $6.7 million and lower fair value gains of $6.0 million, partially offset by higher NOI of $3.2 million.

For the year ended December 31, 2018, net income attributable to common shareholders was $343.6 million or $1.37 per diluted share compared to $633.1 million or $2.55 per diluted share for the prior year. The $289.5 million decrease in net income attributable to common shareholders was primarily due to lower fair value gains net of deferred taxes of $310.0 million and a lower share of profit from joint ventures of $12.4 million, partially offset by higher NOI of $17.3 million, and higher other gains (losses) and (expenses) of $12.6 million.

CAPITAL STRUCTURE AND LIQUIDITY

Total Capital Employed

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

As at	December 31, 2018	December 31, 2017
Liabilities (principal amounts outstanding)		
Bank indebtedness	**$ 7,226**	$ 3,144
Mortgages	**1,287,247**	1,060,342
Credit facilities	**626,172**	581,627
Mortgages under equity accounted joint ventures (at the Company's proportionate interest) (1)	**41,081**	41,987
Credit facilities under equity accounted joint venture (at the Company's proportionate interest) (1)	**24,195**	72,830
Senior unsecured debentures	**2,450,000**	2,600,000
Convertible debentures	**—**	55,093
Equity capitalization (2)		
Common shares (based on closing per share price of $18.85; December 31, 2017 – $20.72)	**4,803,505**	5,064,612
Enterprise value (1)	**$ 9,239,426**	$ 9,479,635

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

(2) Equity capitalization is the market value of the Company's shares outstanding at a point in time. The measures is not defined by IFRS, does not have a standard definition and, as such, may not be comparable to similar measures disclosed by other issuers.

Key Metrics

The ratios below include measures not specifically defined in IFRS.

As at	December 31, 2018	December 31, 2017
Weighted average effective interest rate on mortgages and senior unsecured debentures	**4.2%**	4.4%
Weighted average maturity on mortgages and senior unsecured debentures (years)	**5.5**	5.4
Net debt to total assets (1)	**42.1%**	43.4%
Net debt to Adjusted EBITDA (1)	**9.6**	9.7
Unencumbered aggregate assets (1)	**$ 7,270,358**	$ 7,374,086
Unencumbered aggregate assets to unsecured debt, based on fair value (1)	**2.5**	2.4
Adjusted EBITDA interest coverage (1)	**2.5**	2.5

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

Measures used in these ratios are defined below:

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

Credit Ratings

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

Since November 2012, Moody's has rated the Company's senior unsecured debentures as Baa2 with a stable outlook. As defined by Moody's, a credit rating of Baa2 denotes that these debentures are subject to moderate credit risk and are of medium grade and, as such, may possess certain speculative characteristics. A rating outlook provided by Moody's, expressed as positive, stable, negative or developing, is an opinion regarding the outlook for the rating in question over the medium term.

Outstanding Debt and Principal Maturity Profile

The maturity profile of the Company's mortgages and credit facilities as well as its senior unsecured debentures as at December 31, 2018 is summarized in the table below:

	Mortgages	Credit Facilities/Bank Indebtedness	Senior Unsecured Debentures	Total	% Due
2019	$ 120,859	$ 112,099	$ 150,000	$ 382,958	8.8%
2020	90,318	201,517	175,000	466,835	10.7%
2021	95,582	—	175,000	270,582	6.2%
2022	171,727	11,068	450,000	632,795	14.5%
2023	22,490	308,714	300,000	631,204	14.4%
2024	83,607	—	300,000	383,607	8.8%
2025	76,038	—	300,000	376,038	8.6%
2026	163,645	—	300,000	463,645	10.6%
2027	91,807	—	300,000	391,807	9.0%
2028	154,449	—	—	154,449	3.5%
2029	7,574	—	—	7,574	0.2%
Thereafter	209,151	—	—	209,151	4.7%
	1,287,247	633,398	2,450,000	4,370,645	100.0%
Add (deduct): unamortized deferred financing costs, premiums and discounts, net	(1,339)	—	(2,722)	(4,061)	
Total	$ 1,285,908	$ 633,398	$ 2,447,278	$ 4,366,584	

The Company's strategy is to manage its long-term debt by staggering maturity dates in order to mitigate risk associated with short-term volatility in the debt markets. The Company also intends to maintain financial flexibility to support a reasonable cost of debt and equity capital over the long term.

Mortgages

The changes in the Company's mortgages during the year ended December 31, 2018 are set out below:

Year ended December 31, 2018		Amount	Weighted Average Effective Interest Rate
Balance at beginning of period	$	1,060,339	4.3%
Mortgage borrowings		388,908	3.7%
Mortgage repayments		(134,902)	5.6%
Scheduled amortization on mortgages		(27,108)	—%
Amortization of financing costs and net premium		(1,329)	—%
Balance at end of period	$	1,285,908	4.0%

As at December 31, 2018, 100% (December 31, 2017 – 100%) of the outstanding mortgages bore interest at fixed interest rates. The average remaining term of mortgages outstanding increased from 4.7 years as at December 31, 2017 on $1.1 billion of mortgages to 6.2 years as at December 31, 2018 on $1.3 billion of mortgages after reflecting borrowing activity and repayments during the period.

Mortgage Maturity Profile

The maturity profile of the Company's mortgages as at December 31, 2018 is summarized in the table below:

As at December 31, 2018	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2019	$ 24,628	$ 96,231	$ 120,859	6.5%
2020	22,425	67,893	90,318	4.4%
2021	22,185	73,397	95,582	4.6%
2022	23,773	147,954	171,727	3.9%
2023	22,490	—	22,490	N/A
2024	22,337	61,270	83,607	4.0%
2025	20,143	55,895	76,038	3.5%
2026	15,587	148,058	163,645	3.2%
2027	11,943	79,864	91,807	3.6%
2028	8,726	145,723	154,449	3.8%
2029	7,574	—	7,574	N/A
Thereafter	7,741	201,410	209,151	3.6%
	$ 209,552	$ 1,077,695	$ 1,287,247	4.0%
Add: unamortized deferred financing costs and premiums and discounts, net			(1,339)	
Total			$ 1,285,908	

Credit Facilities

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

The Company has the flexibility under its unsecured credit facilities to draw funds based on Canadian bank prime rates and Canadian bankers' acceptances ("BA rates") for Canadian dollar-denominated borrowings, and LIBOR rates or U.S. prime rates for U.S. dollar-denominated borrowings. As of December 31, 2018, the Company had drawn US$368.7 million, as well as CAD$7.2 million in bank indebtedness on its unsecured credit facilities. Concurrently with the U.S. dollar draws, the Company entered into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

During the first quarter of 2018, the Company entered into a new borrowing tranche under an existing credit facility with a borrowing capacity of CAD$50 million, key terms of which are presented in the table below. The Company also extended the maturity of its $15.9 million secured facility to March 31, 2019 on substantially the same terms.

During the second quarter of 2018, the Company extended the maturities of its $800 million unsecured facility and $7.5 million secured facility to, June 30, 2023 and April 30, 2019, respectively.

In the third quarter of 2018, the Company entered into two new secured credit facilities with a borrowing capacity of CAD $20.7 million and CAD$4.3 million, respectively, key terms of which are presented in the table below. The Company also extended the maturity of its $7.5 million secured facility to October 30, 2019.

In the fourth quarter of 2018, the Company entered into one new secured facility with a borrowing capacity of CAD$6.8 million, key terms of which are presented in the table below. The Company also extended the maturity of its $115 million secured construction facility to August 13, 2019.

The Company's credit facilities, including its proportionate share of facilities under the equity accounted joint ventures, as at December 31, 2018 are summarized in the table below:

As at December 31, 2018	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Unsecured operating facilities						
Revolving facility maturing 2023 (1)	$ 800,000	$ (301,488)	$ (23,843)	$ 474,669	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	June 30, 2023
Non-revolving facility maturing 2020 (2)	150,000	(150,519)	(17,560)	—	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	October 31, 2020
Additional Tranche (3)	50,000	(50,998)	—	—	BA + 1.10% or Prime + 0.10% or US$ LIBOR + 1.10%	October 31, 2020
Secured construction facilities						
Maturing 2019	115,000	(74,452)	(668)	39,880	BA + 1.125% or Prime + 0.125%	August 13, 2019
Maturing 2019	15,907	(15,572)	—	335	BA + 1.125% or Prime + 0.125%	March 31, 2019
Credit facilities under equity accounted joint ventures	24,470	(24,195)	—	275	Between Prime - 0.15% and BA + 2.5%	Between March 2019 and January 2020
Secured Facilities						
Maturing 2019	20,734	(2,700)	(793)	17,241	BA + 1.125% or Prime + 0.125%	December 31, 2019
Maturing 2019	11,875	(11,875)	—	—	BA + 1.125% or Prime + 0.125%	September 27, 2019
Maturing 2019	7,500	(7,500)	—	—	BA + 1.125% or Prime + 0.125%	October 30, 2019
Maturing 2022	4,313	(4,313)	—	—	BA + 1.125% or Prime + 0.125%	September 28, 2022
Maturing 2022	6,755	(6,755)		—	BA + 1.125% or Prime + 0.125%	December 19, 2022
Total	$ 1,206,554	$ (650,367)	$ (42,864)	$ 532,400		

(1) The Company had drawn in U.S. dollars the equivalent of CAD$294.8 million which was revalued at CAD$301.5 million as at December 31, 2018.

(2) The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$150.5 million as at December 31, 2018. Maximum borrowing capacity for the letters of credit is CAD$35.0 million of which $17.6 million has been drawn as at December 31, 2018.

(3) The Company had drawn in U.S. dollars the equivalent of CAD$50.0 million which was revalued at CAD$51.0 million as at December 31, 2018.

Senior Unsecured Debentures

As at December 31, 2018			Interest Rate		Remaining Term to Maturity	Principal Outstanding
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	(years)	
L	July 30, 2019	January 30, July 30	5.48%	5.61%	0.6	150,000
M	April 30, 2020	April 30, October 30	5.60%	5.60%	1.3	175,000
N	March 1, 2021	March 1, September 1	4.50%	4.63%	2.2	175,000
O	January 31, 2022	January 31, July 31	4.43%	4.59%	3.1	200,000
P	December 5, 2022	June 5, December 5	3.95%	4.18%	3.9	250,000
Q	October 30, 2023	April 30, October 30	3.90%	3.97%	4.8	300,000
R	August 30, 2024	August 30, February 28	4.79%	4.72%	5.7	300,000
S	July 31, 2025	January 31, July 31	4.32%	4.24%	6.6	300,000
T	May 6, 2026	November 6, May 6	3.60%	3.56%	7.4	300,000
U	July 12, 2027	January 12, July 12	3.75%	3.82%	8.5	300,000
	Weighted Average or Total		4.32%	4.36%	5.0	$ 2,450,000

Convertible Debentures

(i) Interest

During the year ended December 31, 2018, no common shares (year ended December 31, 2017 – 0.1 million common shares) were issued to pay accrued interest to holders of the convertible debentures (year ended December 31, 2017 – $2.4 million).

During the year ended December 31, 2018, the Company paid $1.0 million (year ended December 31, 2017 – $3.9 million) in cash to pay accrued interest to holders of convertible debentures.

(ii) Principal Redemption

On February 28, 2018, the Company redeemed its remaining 4.45% Series J convertible debentures for $55.1 million, at par. The full redemption price and any accrued interest owing on the convertible debentures was satisfied in cash. The Company no longer has any convertible debentures outstanding.

Shareholders' Equity

Shareholders' equity amounted to $5.0 billion as at December 31, 2018, compared to $4.6 billion as at December 31, 2017. During the year ended December 31, 2018, a total of 10.4 million common shares were issued as follows:
9.8 million shares from a public offering and 0.6 million shares from the exercise of common share options and settlement of restricted, and deferred share units.

As at February 11, 2019, there were 254.9 million common shares outstanding.

Share Purchase Options

As at December 31, 2018, the Company had 4.7 million share purchase options outstanding, with an average exercise price of $19.27, which, if exercised, would result in the Company receiving proceeds of $91.3 million.

Liquidity

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

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

As at (millions of dollars)	**December 31, 2018**	December 31, 2017
Total available under credit facilities	**$ 532**	$ 504
Cash and cash equivalents	**$ 16**	$ 12
Unencumbered aggregate assets	**$ 7,270**	$ 7,374

The Company has historically used mortgages, credit facilities, senior unsecured debentures, convertible debentures and equity issuances to finance its growth and repay debt. The actual level and type of future borrowings will be determined based on prevailing interest rates, various costs of debt and equity capital, capital market conditions and Management's view of the appropriate leverage for the business. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term based on the availability of capital.

Planned and completed financings subsequent to December 31, 2018, and availability on existing credit facilities, address substantially all of the contractual 2019 debt maturities and contractually committed costs to complete current development projects.

Cash Flows

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

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Cash provided by operating activities	**$ 114,128**	$ 107,364	**$ 283,012**	$ 270,159
Cash provided by financing activities	**43,433**	(11,856)	**39,330**	55,495
Cash used in investing activities	**(157,558)**	(101,460)	**(318,315)**	(326,364)
Net change in cash and cash equivalents	**$ 3**	$ (5,952)	**$ 4,027**	$ (710)

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

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Cash provided by operating activities	**$ 114,128**	$ 107,364	**$ 283,012**	$ 270,159
Dividends declared	**(54,973)**	(52,700)	**(215,537)**	(210,433)
Excess (shortfall) of cash provided by operating activities over dividends declared	**59,155**	54,664	**67,475**	59,726

Cash provided by operating activities exceeded dividends declared for the three months and years ended December 31, 2018 and 2017.

Contractual Obligations

An analysis of the Company's contractual maturities of its material financial liabilities and other contractual commitments, as at December 31, 2018 is set out below:

As at December 31, 2018	Payments due by period				
	2019	2020 to 2021	2022 to 2023	Thereafter	Total
Scheduled mortgage principal amortization	$ 24,628	$ 44,610	$ 46,263	$ 94,051	$ 209,552
Mortgage principal repayments on maturity	96,231	141,290	147,954	692,220	1,077,695
Credit facilities and bank indebtedness	112,099	201,517	319,782	—	633,398
Senior unsecured debentures	150,000	350,000	750,000	1,200,000	2,450,000
Interest obligations [(1)]	166,685	276,648	209,154	202,315	854,802
Land leases (expiring between 2023 and 2061)	1,250	2,239	1,912	18,180	23,581
Contractually committed costs to complete current development projects	39,245	15,294	—	—	54,539
Other committed costs	82,955	—	—	—	82,955
Total contractual obligations	$ 673,093	$ 1,031,598	$ 1,475,065	$ 2,206,766	$ 5,386,522

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2018 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

The Company has $35.7 million of outstanding letters of credit issued by financial institutions to support certain of the Company's contractual obligations and $7.2 million of bank overdrafts.

The Company's estimated cost to complete properties currently under development is $122.3 million, of which $54.5 million is contractually committed. The balance of the costs to complete will only be committed once leases are signed and/or construction is underway. These contractual and potential obligations primarily consist of construction contracts and additional planned development expenditures and are expected to be funded in the normal course as the work is completed.

Contingencies

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of Management, none of these contingencies, individually or in the aggregate, would result in a liability that would have a material adverse effect on the financial position of the Company. The Company is contingently liable, jointly and severally, for approximately $152.2 million (December 31, 2017 – $119.1 million) to various lenders in connection with certain obligations, including loans advanced to its partners secured by the partners' interest in the entity and underlying assets.

NON-IFRS RECONCILIATIONS AND FINANCIAL MEASURES

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

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

As at			**December 31, 2018**			December 31, 2017
	Consolidated Balance Sheet [(1)]	**Adjustments for Proportionate Interest**	**Proportionate Interest** [(2)]	Consolidated Balance Sheet [(1)]	Adjustments for Proportionate Interest	Proportionate Interest [(2)]
ASSETS						
Investment properties – shopping centres	**$ 9,623,905**	**$ 80,775**	**$ 9,704,680**	$ 9,226,206	$ 78,775	$ 9,304,981
Investment properties – development land	**58,709**	**44,657**	**103,366**	72,041	27,240	99,281
Residential development inventory	**9,510**	**—**	**9,510**	5,483	10,219	15,702
Hotel property	**58,604**	**—**	**58,604**	—	—	—
Loans, mortgages and other assets	**364,059**	**2,880**	**366,939**	280,148	2,849	282,997
Cash and cash equivalents	**15,534**	**9,141**	**24,675**	11,507	1,753	13,260
Amounts receivable	**36,391**	**(1,097)**	**35,294**	25,437	376	25,813
Other assets	**56,307**	**5,822**	**62,129**	47,387	1,570	48,957
Investment in joint ventures	**144,375**	**(144,375)**	**—**	202,231	(202,231)	—
Investment properties classified as held for sale	**85,661**	**43,305**	**128,966**	98,112	150,107	248,219
Total assets	**$ 10,453,055**	**$ 41,108**	**$10,494,163**	$ 9,968,552	$ 70,658	$10,039,210
LIABILITIES						
Mortgages	**$ 1,285,908**	**$ 40,957**	**$ 1,326,865**	$ 1,053,260	$ 41,772	$ 1,095,032
Credit facilities	**626,172**	**5,643**	**631,815**	581,627	12,195	593,822
Bank indebtedness	**7,226**	**—**	**7,226**	3,144	—	3,144
Senior unsecured debentures	**2,447,278**	**—**	**2,447,278**	2,595,966	—	2,595,966
Convertible debentures	**—**	**—**	**—**	54,293	—	54,293
Deferred tax liabilities	**793,300**	**—**	**793,300**	720,431	—	720,431
Debt secured by investment properties held for sale	**—**	**18,553**	**18,553**	7,079	60,635	67,714
Accounts payable and other liabilities	**285,099**	**5,785**	**290,884**	257,068	4,669	261,737
Total liabilities	**5,444,983**	**70,938**	**5,515,921**	5,272,868	119,271	5,392,139
EQUITY						
Shareholders' equity	**4,978,242**	**—**	**4,978,242**	4,647,071	—	4,647,071
Non-controlling interest	**29,830**	**(29,830)**	**—**	48,613	(48,613)	—
Total equity	**5,008,072**	**(29,830)**	**4,978,242**	4,695,684	(48,613)	4,647,071
Total liabilities and equity	**$ 10,453,055**	**$ 41,108**	**$10,494,163**	$ 9,968,552	$ 70,658	$10,039,210

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

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

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

The following table provides a reconciliation of the Company's consolidated statements of income for the three months ended December 31, 2018, to its proportionate interest.

Three months ended December 31			2018			2017
	Consolidated Statements of Income	**Adjustment to proportionate interest**	**Proportionate interest [(1)]**	Consolidated Statements of Income	Adjustment to proportionate interest	Proportionate interest [(1)]
Property rental revenue	**$ 184,590**	**$ 2,089**	**$ 186,679**	$ 177,206	$ 2,360	$ 179,566
Property operating costs	**70,075**	**550**	**70,625**	65,869	721	66,590
Net operating income	**114,515**	**1,539**	**116,054**	111,337	1,639	112,976
Other income and expenses						
Interest and other income	**6,150**	**11**	**6,161**	7,586	(33)	7,553
Interest expense	**(39,154)**	**(515)**	**(39,669)**	(39,851)	(669)	(40,520)
Corporate expenses	**(8,912)**	**292**	**(8,620)**	(9,287)	141	(9,146)
Abandoned transaction costs	**(53)**	**—**	**(53)**	(42)	1	(41)
Amortization expense	**(1,020)**	**—**	**(1,020)**	(503)	—	(503)
Share of profit from joint ventures	**268**	**(268)**	**—**	6,966	(6,966)	—
Other gains (losses) and (expenses)	**(2,256)**	**(29)**	**(2,285)**	1,180	—	1,180
Increase (decrease) in value of investment properties, net	**10,972**	**(840)**	**10,132**	17,010	3,951	20,961
	(34,005)	**(1,349)**	**(35,354)**	(16,941)	(3,575)	(20,516)
Income before income taxes	**80,510**	**190**	**80,700**	94,396	(1,936)	92,460
Deferred income taxes	**16,394**	**—**	**16,394**	17,627	—	17,627
Net income	**$ 64,116**	**$ 190**	**$ 64,306**	$ 76,769	$ (1,936)	$ 74,833
Net income attributable to:						
Common shareholders	**$ 64,306**	**$ —**	**$ 64,306**	$ 74,833	$ —	$ 74,833
Non-controlling interest	**(190)**	**190**	**—**	1,936	(1,936)	—
	$ 64,116	**$ 190**	**$ 64,306**	$ 76,769	$ (1,936)	$ 74,833
Net income per share attributable to common shareholders:						
Basic	**$ 0.25**			$ 0.31		
Diluted	**$ 0.25**			$ 0.30		

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

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

Year ended December 31			2018			2017
	Consolidated Statements of Income	**Adjustment for proportionate interest**	**Proportionate interest [1]**	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest [1]
Property rental revenue	**$ 729,595**	**$ 8,312**	**$ 737,907**	$ 694,459	$ 9,101	$ 703,560
Property operating costs	**274,822**	**2,752**	**277,574**	256,949	3,193	260,142
Net operating income	**454,773**	**5,560**	**460,333**	437,510	5,908	443,418
Other income and expenses						
Interest and other income	**26,429**	**1,930**	**28,359**	28,401	449	28,850
Interest expense	**(153,240)**	**(2,209)**	**(155,449)**	(157,411)	(2,466)	(159,877)
Corporate expenses	**(37,094)**	**1,171**	**(35,923)**	(36,442)	990	(35,452)
Abandoned transaction costs	**(177)**	**(1)**	**(178)**	(151)	(10)	(161)
Amortization expense	**(3,235)**	**—**	**(3,235)**	(1,963)	—	(1,963)
Share of profit from joint ventures	**30,411**	**(30,411)**	**—**	42,860	(42,860)	—
Other gains (losses) and (expenses)	**10,733**	**(1,259)**	**9,474**	(1,906)	(8)	(1,914)
Increase (decrease) in value of investment properties, net	**102,389**	**16,985**	**119,374**	458,363	26,940	485,303
	(23,784)	**(13,794)**	**(37,578)**	331,751	(16,965)	314,786
Income before income taxes	**430,989**	**(8,234)**	**422,755**	769,261	(11,057)	758,204
Deferred income taxes	**79,151**	**(2)**	**79,149**	125,101	14	125,115
Net income	**$ 351,838**	**$ (8,232)**	**$ 343,606**	$ 644,160	$ (11,071)	$ 633,089
Net income attributable to:						
Common shareholders	**$ 343,606**	**$ —**	**$ 343,606**	$ 633,089	$ —	$ 633,089
Non-controlling interest	**8,232**	**(8,232)**	**—**	11,071	(11,071)	—
	$ 351,838	**$ (8,232)**	**$ 343,606**	$ 644,160	$ (11,071)	$ 633,089
Net income per share attributable to common shareholders:						
Basic	**$ 1.38**			$ 2.59		
Diluted	**$ 1.37**			$ 2.55		

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

FFO and ACFO

Funds from Operations

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

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Net income attributable to common shareholders	**$ 64,306**	$ 74,833	**$ 343,606**	$ 633,089
Add (deduct):				
(Increase) decrease in value of investment properties [1]	**(10,132)**	(20,961)	**(119,374)**	(485,303)
Adjustment for equity accounted joint ventures [2]	**346**	525	**1,544**	3,146
Incremental leasing costs [3]	**1,616**	1,049	**6,438**	6,389
Amortization expense [4]	**161**	—	**413**	—
Gain on below market purchase [5]	**—**	—	**(13,975)**	—
Transaction costs [6]	**—**	—	**2,052**	—
Investment properties selling costs [1]	**689**	112	**3,118**	1,674
Deferred income taxes [1]	**16,394**	17,627	**79,149**	125,115
FFO [7]	**$ 73,380**	$ 73,185	**$ 302,971**	$ 284,110

(1) At the Company's proportionate interest.

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

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

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

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

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

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

The components of FFO at proportionate interest are as follows:

	Three months ended December 31			Year ended December 31		
	% change	**2018**	2017	% change	**2018**	2017
Net operating income		**$ 116,054**	$ 112,976		**$ 460,333**	$ 443,418
Interest and other income		**6,161**	7,553		**28,359**	28,850
Interest expense [1]		**(39,323)**	(39,995)		**(153,905)**	(156,731)
Corporate expenses [2]		**(7,004)**	(8,097)		**(29,485)**	(29,063)
Abandoned transaction costs		**(53)**	(41)		**(178)**	(161)
Amortization expense [3]		**(859)**	(503)		**(2,822)**	(1,963)
Other gains (losses) and (expenses) [4]		**(1,596)**	1,292		**669**	(240)
FFO [5]	0.3 %	**$ 73,380**	$ 73,185	6.6%	**$ 302,971**	$ 284,110
FFO per diluted share	(3.7)%	**$ 0.29**	$ 0.30	4.4%	**$ 1.21**	$ 1.16
Weighted average number of common shares – diluted – FFO (in thousands)	4.2 %	**255,821**	245,422	2.2%	**250,474**	245,153

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

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

(3) Excludes hotel property amortization in accordance with the recommendations of REALPAC.

(4) At the Company's proportionate interest, adjusted to exclude gain on below market purchase and transaction costs related to the hotel property as well as investment properties selling costs in accordance with the recommendations of REALPAC.

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

For the three months ended December 31, 2018, FFO totaled $73.4 million or $0.29 per diluted share compared to $73.2 million or $0.30 per diluted share in the same prior year period. The $0.2 million increase in FFO over the prior year period is primarily due to NOI increasing by $3.1 million largely due to growth in SP NOI, partially offset by a $2.9 million increase in other losses due to non-recurring gains realized in the fourth quarter of 2017.

For the year ended December 31, 2018, FFO totaled $303.0 million or $1.21 per diluted share compared to $284.1 million or $1.16 per diluted share for the prior year. The $18.9 million increase in FFO was due to NOI increasing by $16.9 million primarily due to growth in SP NOI and an increase in straight-line rent due to a greater number of tenants in fixturing over the prior year. In addition, FFO also increased due to a $2.8 million decrease in interest expense primarily due to the early redemptions of higher rate convertible debentures.

Adjusted Cash Flow from Operations

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

	Three months ended December 31		Year ended December 31	
	2018	2017	**2018**	2017
Cash provided by operating activities	**$ 114,128**	$ 107,364	**$ 283,012**	$ 270,159
Add (deduct):				
Working capital adjustments [1]	**(34,157)**	(33,544)	**(1,181)**	(1,301)
Adjustment for equity accounted joint ventures	**1,130**	1,907	**3,546**	6,168
Revenue sustaining capital expenditures	**(5,456)**	(6,531)	**(15,523)**	(21,781)
Recoverable capital expenditures	**(4,780)**	(5,114)	**(7,945)**	(9,701)
Leasing costs on properties under development	**405**	262	**1,610**	1,597
Realized gain (loss) on sale of marketable securities	**43**	(1,165)	**4,232**	(1,165)
Non-controlling interest	**59**	(178)	**(583)**	(331)
ACFO [2]	**$ 71,372**	$ 63,001	**$ 267,168**	$ 243,645

[1] Working capital adjustments primarily include adjustments for prepaid as well as accrued property taxes as their levels vary considerably over the course of the year as well as certain other adjustments as specified in the most recent REALPAC whitepaper on ACFO issued in February 2018.

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

For the three months and year ended December 31, 2018, ACFO totaled $71.4 million and $267.2 million compared to $63.0 million and $243.6 million for the prior year periods, respectively. For the three months ended December 31, 2018, the increase in ACFO of $8.4 million was primarily due to higher NOI and lower capital expenditures. For the year ended December 31, 2018, the increase in ACFO of $23.5 million was primarily due to higher NOI, lower capital expenditures and higher realized gains on the sale of the Company's marketable securities.

ACFO Payout Ratio

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

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

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

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

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

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

The Company considers a rolling four quarter payout ratio (cash dividends / ACFO) to be more relevant than a payout ratio in any given quarter due to seasonal fluctuations in ACFO. The Company's ACFO payout ratio improved to 79.6% in 2018 versus 86.0% in 2017.

DIVIDENDS

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

	Three months ended December 31		Year ended December 31	
(in dollars)	**2018**	2017	**2018**	2017
Dividend per common share	**$ 0.215**	$ 0.215	**$ 0.860**	$ 0.860

SUMMARY OF FINANCIAL RESULTS OF LONG-TERM DEBT GUARANTORS

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

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

(millions of dollars)										Year ended December 31
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	FCR [1]		Guarantors [2]		Non-Guarantors [3]		Consolidation Adjustments [4]		Total Consolidated	
Property rental revenue	**$ 309**	$ 290	**$ 423**	$ 407	**$ 1**	$ 6	**$ (3)**	$ (9)	**$ 730**	$ 694
NOI [5]	**204**	195	**252**	244	**2**	3	**(3)**	(4)	**455**	438
Net income attributable to common shareholders	**344**	633	**172**	462	**25**	40	**(197)**	(502)	**344**	633

(millions of dollars)					As at December 31, 2018
	FCR [1]	Guarantors [2]	Non-Guarantors [3]	Consolidation Adjustments [4]	Total Consolidated
Current assets	**$ 162**	**$ 308**	**$ 68**	**$ (94)**	**$ 444**
Non-current assets	**9,409**	**5,159**	**67**	**(4,626)**	**10,009**
Current liabilities	**467**	**184**	**6**	**(2)**	**655**
Non-current liabilities	**4,096**	**730**	**34**	**(70)**	**4,790**

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company, and, as of December 31, 2018, beneficially owned 31.3% (December 31, 2017 – 32.6%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit.

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

	Year ended December 31	
	2018	2017
Reimbursements for professional services	**$ 186**	$ 228

As at December 31, 2018, amounts due from Gazit were $40 thousand (December 31, 2017 – $30 thousand).

Joint Ventures

During the three months and year ended December 31, 2018, the Company earned fee income of $0.2 million (December 31, 2017 – $0.5 million) and $4.5 million (December 31, 2017 – $2.4 million), respectively, from its joint ventures. Also during the year ended December 31, 2018, the Company advanced $2.1 million (December 31, 2017 – $1.2 million) to one of its joint ventures.

Subsidiaries of the Company

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

SUBSEQUENT EVENTS

First Quarter Dividend

The Company announced that it will pay a first quarter dividend of $0.215 per common share on April 18, 2019 to shareholders of record on March 29, 2019.

QUARTERLY FINANCIAL INFORMATION

	2018				2017			
(share counts in thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property rental revenue	**$ 184,590**	$ 182,368	$ 181,852	$ 180,785	$ 177,206	$ 170,670	$ 171,729	$ 174,853
Net operating income [1]	**$ 114,515**	$ 114,800	$ 113,816	$ 111,642	$ 111,337	$ 110,610	$ 108,678	$ 106,884
Net income attributable to common shareholders	**$ 64,306**	$ 131,427	$ 81,929	$ 65,944	$ 74,833	$ 83,046	$ 271,539	$ 203,671
Net income per share attributable to common shareholders:								
Basic	**$ 0.25**	$ 0.52	$ 0.33	$ 0.27	$ 0.31	$ 0.34	$ 1.11	$ 0.83
Diluted	**$ 0.25**	$ 0.52	$ 0.33	$ 0.27	$ 0.30	$ 0.34	$ 1.09	$ 0.82
Weighted average number of diluted common shares outstanding – IFRS	**255,821**	254,100	246,196	247,044	248,266	248,626	250,516	250,232
FFO [1]	**$ 73,380**	$ 76,510	$ 79,148	$ 73,933	$ 73,185	$ 73,720	$ 70,580	$ 66,625
FFO per diluted share [1]	**$ 0.29**	$ 0.30	$ 0.32	$ 0.30	$ 0.30	$ 0.30	$ 0.29	$ 0.27
Weighted average number of diluted common shares outstanding – FFO	**255,821**	254,100	246,196	245,717	245,422	245,137	245,186	244,820
Cash provided by operating activities	**$ 114,128**	$ 72,049	$ 51,356	$ 45,479	$ 107,364	$ 85,956	$ 30,867	$ 45,970
ACFO [1]	**$ 71,372**	$ 71,464	$ 74,030	$ 50,302	$ 63,001	$ 72,221	$ 58,742	$ 49,681
Dividend per common share	**$ 0.215**	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215
Total assets	**$10,453,055**	$10,317,034	$10,070,477	$ 9,980,267	$9,968,552	$ 9,861,267	$ 9,688,357	$9,334,216
Total mortgages and credit facilities	**$ 1,912,080**	$ 1,678,862	$ 1,691,387	$ 1,694,732	$1,641,966	$ 1,456,226	$ 1,609,827	$1,527,179
Shareholders' equity	**$ 4,978,242**	$ 4,981,511	$ 4,703,593	$ 4,669,877	$4,647,071	$ 4,618,170	$ 4,577,648	$4,352,882
Other								
Number of properties	**166**	166	162	161	161	159	160	160
GLA - at 100% (in thousands)	**25,456**	25,519	25,327	25,267	25,390	25,168	25,217	25,215
GLA - at ownership interest (in thousands)	**23,854**	23,797	23,700	23,648	23,991	23,751	23,798	23,791
Monthly average occupancy %	**96.6%**	96.4%	96.2%	96.0%	95.4%	95.0%	94.8%	94.6%
Total portfolio occupancy %	**96.7%**	96.5%	96.3%	96.2%	96.1%	95.3%	95.0%	94.5%

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

CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the reporting periods. Actual results could differ from those estimates. Management believes that the policies that are most subject to estimation and Management's judgment are those outlined below.

Judgments

Investment properties

In applying the Company's policy with respect to investment properties, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which capitalization of borrowing and other costs ceases.

Hedge accounting

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

Income taxes

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

Estimates and Assumptions

Valuation of Investment properties

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

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

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

Shopping centres are appraised primarily based on an income approach that reflects stabilized cash flows or net operating income from existing tenants with the property in its existing state, since purchasers typically focus on expected income. Internal valuations are conducted using and placing reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition).

Properties undergoing development, redevelopment or expansion are valued either (i) using the discounted cash flow method, with a deduction for costs to complete the project, or (ii) at cost, when cost approximates fair value. Stabilized capitalization rates, discount rates and terminal capitalization rates, as applicable, are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land.

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

Refer to Note 2(f) of the audited consolidated financial statements for the year ended December 31, 2018 for further information on the estimates and assumptions made by Management in connection with the fair values of investment properties.

Valuation of Financial Instruments

The Company is required to determine the fair value of its loans, mortgages and credit facilities, senior unsecured debentures, loans and mortgages receivable, other equity investments and marketable securities and derivatives. The fair values of the marketable securities are based on quoted market prices. The fair values of the other financial instruments are calculated using internally developed models as follows:

- Mortgages and credit facilities are calculated based on market interest rates plus a risk-adjusted spread on discounted cash flows.
- Senior unsecured debentures are based on closing bid risk-adjusted spreads and current underlying Government of Canada bond yields on discounted cash flows, also incorporating interest rate quotations provided by financial institutions.
- Derivative instruments are determined using present value forward pricing and swap calculations at interest rates that reflect current market conditions.
- Loans and mortgages receivable are calculated based on current market rates plus borrower level risk-adjusted spreads on discounted cash flows, adjusted for allowances for non-payment and collateral related risk.
- Equity investments in certain funds are based on the fair value of the properties held in the funds. The fair value of the equity investment in a private entity approximates its cost.

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

Income Taxes

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

Additional critical accounting estimates and assumptions include estimating the fair value of share-based compensation.

ACCOUNTING POLICY CHANGES

Refer to Note 3 of the audited annual consolidated financial statements for the years ended December 31, 2018 and 2017 for details on the impact of accounting policy changes related to the adoption of new and amended IFRS pronouncements.

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

Leases

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

IFRS 16 is required for annual periods beginning on or after January 1, 2019. The Company has assessed the impact of IFRS 16 to its consolidated financial statements and has concluded that leases with tenants will continue to be accounted for as operating leases consistent with current accounting standards.

Uncertainty over income tax treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company has assessed the impact of IFRIC 23 and has concluded that there will be no impact to its consolidated financial statements on adoption of these amendments.

CONTROLS AND PROCEDURES

As at December 31, 2018, the Chief Executive Officer and the Chief Financial Officer of the Company, with the assistance of other staff and Management of the Company to the extent deemed necessary, have designed the Company's disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In the design of its internal controls over financial reporting, the Company used the 2013 framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their supervision, the effectiveness of the Company's disclosure controls and procedures and its internal controls over financial reporting (each as defined in National Instrument 52-109-Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2018, and have concluded that such disclosure controls and procedures and internal controls over financial reporting were operating effectively.

The Company did not make any changes in its internal controls over financial reporting during the quarter ended December 31, 2018 that have had, or are reasonably likely to have, a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

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

RISKS AND UNCERTAINTIES

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

Economic Conditions and Ownership of Real Estate

Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long-term mortgage and unsecured debenture financings, fluctuations in interest rates and unemployment levels) and in local market conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other real estate developers, managers and owners in seeking tenants, the ability of the owner to provide adequate maintenance at an economic cost, and various other factors. The economic conditions in the markets in which the Company operates can also have a significant impact on the

Company's tenants and, in turn, the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants.

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

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

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

First Capital Realty's net income could be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of any anchor store or anchor tenant. Anchor tenants generally occupy large amounts of leasable area, pay a significant portion of the total rents at a property and contribute to the success of other tenants by drawing significant numbers of customers to a property. The closing of one or more anchor stores at a property could have a significant adverse effect on that property.

Lease Renewals and Rental Increases

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

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

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

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

Interest rates have a significant effect on the profitability of commercial properties as interest represents a significant cost in the ownership of real property where debt financing is used as a source of capital. The Company has a total of $806.8 million principal amount of fixed rate interest-bearing instruments outstanding including mortgages and senior unsecured debentures maturing between January 1, 2019 and December 31, 2021 at a weighted average coupon interest rate of 5.3%. If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would respectively increase or decrease by $8.1 million. In addition, as at December 31, 2018, the Company had $657.6 million principal amount of debt (or 15% of the Company's aggregate debt as of such date) at floating interest rates.

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

Credit Ratings

Any credit rating that is assigned to the senior unsecured debentures may not remain in effect for any given period of time or may be lowered, withdrawn or revised by one or more of the rating agencies if, in their judgment, circumstances so warrant. Refer to "Corporate Structure - Credit Ratings". Any lowering, withdrawal or revision of a credit rating may have an adverse effect on the market price of the senior unsecured debentures and the other securities of the Company, may adversely affect a securityholder's ability to sell its senior unsecured debentures or other securities of the Company and may adversely affect the Company's access to financial markets and its cost of borrowing.

Acquisition, Expansion, Development, Redevelopment and Strategic Dispositions

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

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

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

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

Competition

The real estate business is competitive. Numerous other developers, managers and owners of retail properties compete with the Company in seeking tenants. Some of the properties located in the same markets as the Company's properties may be newer, better located and/or have stronger anchor tenants than the Company's properties. The existence of developers, managers and owners in the markets in which the Company operates, or any increase in supply of available space in such markets (due to new construction, tenant insolvencies or other vacancy) and competition for the Company's tenants could adversely affect the Company's ability to lease space in its properties in such markets and on the rents charged or concessions granted. In addition, the internet and other technologies increasingly play a more significant role in consumer preferences and shopping patterns, which presents an evolving competitive risk to the Company that is not easily assessed. Any of the aforementioned factors could have an adverse effect on the Company's financial position and results of operations.

Residential Development Sales and Leasing

The Company is and expects to be increasingly involved in the development of mixed-use properties that include residential condominiums and rental apartments. These developments are often carried out with an experienced residential developer as the Company's partner. Purchaser demand for residential condominiums is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as employment levels, availability of financing for homebuyers, interest rates, consumer confidence, levels of new and existing homes for sale, demographic trends and housing demand.

As a residential landlord in its properties that include rental apartments, the Company is subject to the risks inherent in the multi-unit residential rental property industry. In addition to the risks highlighted above, these include exposure to private individual tenants (as opposed to commercial tenants in the Company's retail properties), fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in operating costs including the costs of utilities (residential leases are often "gross" leases under which the landlord is not able to pass on costs to its residents), the imposition of increased taxes or new taxes and capital investment requirements.

Environmental Matters

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

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

Partnerships

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

Significant Shareholders

Chaim Katzman, the former Chairman of the Board and currently a director of First Capital Realty, and several of the Company's shareholders affiliated with Mr. Katzman (the "Gazit Group"), including Gazit-Globe and related entities, beneficially own approximately 31.3% of the outstanding Common Shares. Gazit-Globe is a public company listed on the New York Stock Exchange ("NYSE") and the Tel-Aviv Stock Exchange ("TASE"). Mr. Katzman is the Chief Executive Officer and Vice Chairman of Gazit-Globe and its controlling shareholder, Norstar Holdings Inc., a corporation listed on the TASE ("Norstar"). Additional information concerning Gazit-Globe is available in its public disclosure. Dori J. Segal, the Chairman of the Board of the Company, is also a director of Gazit-Globe and Norstar. Mr. Katzman as well as Mr. Segal, directly and indirectly, own shares of Norstar. As a result, Mr. Katzman owns or exercises control over approximately 53.26% of the outstanding common shares of Gazit-Globe. Mr. Segal directly owns 811,800 common shares of Gazit-Globe, representing approximately 0.43% of the outstanding common shares of Gazit-Globe. In addition, he also holds 2,965,505 stock options and if all these options were exercised, he would own approximately 1.95% of the outstanding common shares of Gazit Globe.

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

Moreover, members of the Gazit Group have pledged a substantial portion of their common shares to secure revolving credit facilities made available to them by commercial banks. The occurrence of an event of default thereunder could result in a sale of such pledged Common Shares that could cause the Company's Common Share price to decline materially or may have a material adverse effect on the Company. Many of the occurrences that could result in a default under the Gazit Group credit facilities, including among other things, foreclosure of the pledged Common Shares, are out of the Company's control and are unrelated to its operations.

The foregoing information regarding the Gazit Group has been provided by the Gazit Group and has not been independently verified. There can be no assurances that such information is complete, and as such there may be additional relevant information not included in the foregoing.

Investments Subject to Credit and Market Risk

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

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

Organizational Structure

The Company currently does not pay income tax principally due to its ability to reduce taxable income through unclaimed Capital Cost Allowance ("CCA") and non-capital losses. The Company is pursuing converting into a REIT. However, transactions undertaken by the Company prior to any REIT conversion, including dispositions, could result in higher taxable income and the use of non-capital losses sooner than estimated and may result in the Company recognizing current income tax expense before a REIT conversion is completed. If the Company continues as a corporation in 2019, depending on its level of taxable income, it could recognize current income tax expense. Additionally, the Company may recognize current income tax expense even if it converts into a REIT, depending on a number of factors including the timing of the conversion, the resulting organizational structure and the amount of dispositions that increase its annual taxable income above its annual distributions. Any reorganization of the Company into a REIT will be subject to customary conditions, including the approval of the shareholders of the Company. No assurance can be given as to whether such reorganization will be undertaken by the Company, the timing or impact of such reorganization or its terms.

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CONSOLIDATED FINANCIAL STATEMENTS

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Management's Responsibility

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

The preparation of consolidated financial statements and the MD&A necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In addition, in preparing this financial information, Management must make determinations as to the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 12, 2019.

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

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities, including the preparation and presentation of the consolidated financial statements and all of the information in the MD&A, and the maintenance of financial and operating systems, through its Audit Committee, that is comprised of independent directors who are not involved in the day-to-day operations of the Company. Each quarter, the Audit Committee meets with Management and, as necessary, with the independent auditors, Ernst & Young LLP, to satisfy itself that Management's responsibilities are properly discharged and to review and report to the Board of Directors on the consolidated financial statements.

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

Adam E. Paul
President and Chief Executive Officer

Kay Brekken
Executive Vice President and Chief Financial Officer

Toronto, Ontario
February 12, 2019

Independent Auditor's Report

To the Shareholders of
First Capital Realty Inc.

Opinion

We have audited the consolidated financial statements of First Capital Realty Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information

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

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Independent Auditor’s Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 12, 2019

Consolidated Balance Sheets

As at *(thousands of dollars)*	**Note**	**December 31, 2018**	December 31, 2017
ASSETS			
Non-current Assets			
Real Estate Investments			
Investment properties – shopping centres	4	**$ 9,623,905**	$ 9,226,206
Investment properties – development land	4	**58,709**	72,041
Investment in joint ventures	24	**144,375**	202,231
Hotel property	5	**58,604**	—
Loans, mortgages and other assets	6	**93,348**	133,163
Total real estate investments		**9,978,941**	9,633,641
Other non-current assets	8	**30,369**	32,008
Total non-current assets		**10,009,310**	9,665,649
Current Assets			
Cash and cash equivalents	28(d)	**15,534**	11,507
Loans, mortgages and other assets	6	**270,711**	146,985
Residential development inventory		**9,510**	5,483
Amounts receivable	7	**36,391**	25,437
Other assets	8	**25,938**	15,379
		358,084	204,791
Investment properties classified as held for sale	4(d)	**85,661**	98,112
Total current assets		**443,745**	302,903
Total assets		**$ 10,453,055**	$ 9,968,552
LIABILITIES			
Non-current Liabilities			
Mortgages	10	**$ 1,164,804**	$ 903,807
Credit facilities	10	**514,073**	558,555
Senior unsecured debentures	11	**2,297,387**	2,446,291
Convertible debentures	12	—	54,293
Other liabilities	13	**20,838**	16,914
Deferred tax liabilities	20	**793,300**	720,431
Total non-current liabilities		**4,790,402**	4,700,291
Current Liabilities			
Bank indebtedness	10	**7,226**	3,144
Mortgages	10	**121,104**	149,453
Credit facilities	10	**112,099**	23,072
Senior unsecured debentures	11	**149,891**	149,675
Accounts payable and other liabilities	13	**264,261**	240,154
		654,581	565,498
Mortgages on investment properties classified as held for sale	4(d), 10	—	7,079
Total current liabilities		**654,581**	572,577
Total liabilities		**5,444,983**	5,272,868
EQUITY			
Shareholders' equity	14	**4,978,242**	4,647,071
Non-controlling interest	25	**29,830**	48,613
Total equity		**5,008,072**	4,695,684
Total liabilities and equity		**$ 10,453,055**	$ 9,968,552

Refer to accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

Al Mawani
Director

Adam E. Paul
Director

Consolidated Statements of Income

		Year ended December 31	
(thousands of dollars, except per share amounts)	**Note**	**2018**	2017
Property rental revenue		**$ 729,595**	$ 694,459
Property operating costs		**274,822**	256,949
Net operating income	15	**454,773**	437,510
Other income and expenses			
Interest and other income	16	**26,429**	28,401
Interest expense	17	**(153,240)**	(157,411)
Corporate expenses	18	**(37,094)**	(36,442)
Abandoned transaction costs		**(177)**	(151)
Amortization expense		**(3,235)**	(1,963)
Share of profit from joint ventures	24	**30,411**	42,860
Other gains (losses) and (expenses)	19	**10,733**	(1,906)
Increase (decrease) in value of investment properties, net	4	**102,389**	458,363
		(23,784)	331,751
Income before income taxes		**430,989**	769,261
Deferred income taxes	20	**79,151**	125,101
Net income		**$ 351,838**	$ 644,160
Net income attributable to:			
Common shareholders		**$ 343,606**	$ 633,089
Non-controlling interest	25	**8,232**	11,071
		$ 351,838	$ 644,160
Net income per share attributable to common shareholders:			
Basic	21	**$ 1.38**	$ 2.59
Diluted	21	**$ 1.37**	$ 2.55

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

			Year ended December 31
(thousands of dollars)	**Note**	**2018**	2017
Net income		**$ 351,838**	$ 644,160
Other comprehensive income (loss)			
Unrealized gain (loss) on cash flow hedges [1]	27	**(7,638)**	14,350
Reclassification of net losses on cash flow hedges to net income	27	**1,468**	1,642
		(6,170)	15,992
Deferred tax expense (recovery)	20	**(1,642)**	4,254
Other comprehensive income (loss)		**(4,528)**	11,738
Comprehensive income		**$ 347,310**	$ 655,898
Comprehensive income attributable to:			
Common shareholders		**$ 339,078**	$ 644,827
Non-controlling interest	25	**8,232**	11,071
		$ 347,310	$ 655,898

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

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of dollars)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
			(Note 14(a))	*(Note 14(b))*			
December 31, 2017	**$ 1,445,519**	**$ 40**	**$ 3,159,542**	**$ 41,970**	**$ 4,647,071**	**$ 48,613**	**$ 4,695,684**
Changes during the year:							
Net income	343,606	—	—	—	343,606	8,232	351,838
Issuance of common shares	—	—	200,019	—	200,019	—	200,019
Issue costs, net of tax	—	—	(6,169)	—	(6,169)	—	(6,169)
Dividends	(215,537)	—	—	—	(215,537)	—	(215,537)
Options, deferred share units, restricted share units, and performance share units, net	—	—	11,556	2,224	13,780	—	13,780
Other comprehensive gain (loss)	—	(4,528)	—	—	(4,528)	—	(4,528)
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	(27,015)	(27,015)
December 31, 2018	**$ 1,573,588**	**$ (4,488)**	**$ 3,364,948**	**$ 44,194**	**$ 4,978,242**	**$ 29,830**	**$ 5,008,072**

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

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

		Year ended December 31	
(thousands of dollars)	**Note**	**2018**	2017
OPERATING ACTIVITIES			
Net income		**$ 351,838**	$ 644,160
Adjustments for:			
(Increase) decrease in value of investment properties, net	4	**(102,389)**	(458,363)
Interest expense	17	**153,240**	157,411
Amortization expense		**3,235**	1,963
Share of profit of joint ventures	24	**(30,411)**	(42,860)
Cash interest paid associated with operating activities	17	**(151,169)**	(152,130)
Items not affecting cash and other items	28(a)	**65,042**	129,293
Net change in non-cash operating items	28(b)	**(6,374)**	(9,315)
Cash provided by (used in) operating activities		**283,012**	270,159
FINANCING ACTIVITIES			
Mortgage borrowings, net of financing costs	10	**387,875**	160,066
Mortgage principal instalment payments	10	**(26,993)**	(28,733)
Mortgage repayments	10	**(134,971)**	(90,966)
Credit facilities, net advances (repayments)	10	**29,562**	322,835
Issuance of senior unsecured debentures, net of issue costs	11	**—**	298,254
Repayment of senior unsecured debentures	11	**(150,000)**	(250,000)
Settlement of hedges		**(149)**	1,618
Repayment of convertible debentures	12(b)	**(55,092)**	(157,325)
Repurchase of convertible debentures		**—**	(112)
Issuance of common shares, net of issue costs		**201,749**	9,478
Payment of dividends		**(212,651)**	(209,620)
Cash provided by (used in) financing activities		**39,330**	55,495
INVESTING ACTIVITIES			
Acquisition of shopping centres	4(c)	**(130,153)**	(65,669)
Acquisition of development land	4(c)	**(1,794)**	—
Acquisition of Hotel property (net settled with loan repayment)	5	**(2,052)**	—
Net proceeds from property dispositions	4(d)	**99,923**	88,407
Distributions from joint ventures		**110,924**	5,922
Contributions to joint ventures		**(25,067)**	(4,870)
Net contributions from (distributions to) non-controlling interest		**(27,015)**	(278)
Capital expenditures on investment properties		**(266,355)**	(231,905)
Changes in investing-related prepaid expenses and other liabilities		**13,790**	(7,420)
Changes in loans, mortgages and other assets	28(c)	**(90,516)**	(110,551)
Cash provided by (used in) investing activities		**(318,315)**	(326,364)
Net increase (decrease) in cash and cash equivalents		**4,027**	(710)
Cash and cash equivalents, beginning of period		**11,507**	12,217
Cash and cash equivalents, end of period	28(d)	**$ 15,534**	$ 11,507

Refer to accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

First Capital Realty Inc. ("First Capital Realty", "FCR", or the "Company") is a corporation existing under the laws of Ontario, Canada, and engages in the business of acquiring, developing, redeveloping, owning and managing well-located, high quality urban retail-centered properties. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "FCR", and its head office is located at 85 Hanna Avenue, Suite 400, Toronto, Ontario, M6K 3S3.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of presentation

The audited annual consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand, unless otherwise indicated. The accounting policies set out below have been applied consistently in all material respects. Changes in standards effective for the current year as well as for future accounting periods are described in Note 3 – "Adoption of New and Amended IFRS Pronouncements".

Comparative information in the financial statements includes reclassification of certain balances to provide consistency with current period classification, for further details refer to Note 3(a) - IFRIC Agenda Decision on IAS 7, "Statement of Cash Flows".

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

These audited annual consolidated financial statements were approved by the Board of Directors and authorized for issue on February 12, 2019.

(c) Basis of consolidation

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

(d) Business combinations

At the time of acquisition of property, the Company considers whether the acquisition represents the acquisition of a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

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

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

(e) Investments in joint arrangements

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

(f) Investment properties

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

(i) Shopping centres

Shopping centres include the Company's shopping centre portfolio, properties currently under development or redevelopment, and any adjacent land parcels available for expansion but not currently under development.

(ii) Development land

Development land includes land parcels which are not part of one of the Company's existing shopping centres and which are at various stages of development planning, primarily for future retail or mixed-use occupancy.

(iii) Investment properties classified as held for sale

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

Valuation method

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

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

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

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

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

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

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

Valuation Inputs

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

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

(i) Shopping centres

Shopping centres are appraised primarily based on an income approach that reflects stabilized cash flows or net operating income from existing tenants with the property in its existing state, since purchasers typically focus on expected income. Internal valuations are conducted using and placing reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition).

(ii) Properties under development

Properties undergoing development, redevelopment or expansion are valued either (i) using the discounted cash flow method, with a deduction for costs to complete the project, or (ii) at cost, when cost approximates fair value. Stabilized capitalization rates, discount rates and terminal capitalization rates, as applicable, are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land.

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

The cost of development properties includes direct development costs, including internal development costs, realty taxes and borrowing costs attributable to the development. Borrowing costs associated with expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on land or properties acquired specifically for development or redevelopment when activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings, less any interest income earned on funds not yet employed in construction funding.

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

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

(g) Hotel property

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

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

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

(h) Residential development inventory

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

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

(i) Taxation

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

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

Deferred tax assets are recorded for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilized. For the determination of deferred tax assets and liabilities where investment property is measured using the fair value model, the presumption is that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time.

Current and deferred income taxes are recognized in correlation to the underlying transaction either in OCI or directly in equity.

(j) Provisions

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

(k) Share-based payments

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

(l) Revenue recognition

The Company has not transferred substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases.

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

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

Base rent, straight-line rent, realty tax recoveries, lease surrender fees and percentage rent are considered lease components and are in the scope of IAS 17 Leases ("IAS 17").

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

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

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

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

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

(m) Financial instruments and derivatives

Effective January 1, 2018 in accordance with IFRS 9, “Financial Instruments” (“IFRS 9”) all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost.

Prior to January 1, 2018 in accordance with IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”) all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss (“FVTPL”), available-for-sale (“AFS”), held-to-maturity, loans and receivables or other liabilities.

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

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

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

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

	December 31, 2018	December 31, 2017	
	Classification & Measurement (IFRS 9)	Classification (IAS 39)	Measurement (IAS 39)
Financial assets			
Other investments/Investments designated as AFS	FVTPL	AFS	Fair Value
Derivative assets	FVTPL	FVTPL	Fair Value
Loans and mortgages receivable	Amortized Cost	Loans and receivables	Amortized Cost
Loans and mortgages receivable [(1)]	FVTPL	N/A	N/A
Equity securities designated as FVTPL	FVTPL	FVTPL	Fair Value
Amounts receivable	Amortized Cost	Loans and receivables	Amortized Cost
Cash and cash equivalents	Amortized Cost	Loans and receivables	Amortized Cost
Restricted cash	Amortized Cost	Loans and receivables	Amortized Cost
Financial liabilities			
Bank indebtedness	Amortized Cost	Other liabilities	Amortized Cost
Mortgages	Amortized Cost	Other liabilities	Amortized Cost
Credit facilities	Amortized Cost	Other liabilities	Amortized Cost
Senior unsecured debentures	Amortized Cost	Other liabilities	Amortized Cost
Convertible debentures	Amortized Cost	Other liabilities	Amortized Cost
Accounts payable and other liabilities	Amortized Cost	Other liabilities	Amortized Cost
Derivative liabilities	FVTPL	FVTPL	Fair Value

(1) The Loans whose cash flows are solely payments of principal or interest are classified as FVTPL.

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

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

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

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

(iii) Level 3 Inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the Company's own assumptions about the data that market participants would use in pricing the asset or liability, and are developed based on the best information available, including the Company's own data. The Company's loans and mortgages receivable classified as FVTPL and other investments are measured using Level 3 inputs.

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

(n) Cash and cash equivalents

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

(o) Critical judgments in applying accounting policies

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

(i) Investment properties

In applying the Company's policy with respect to investment properties, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which capitalization of borrowing and other costs ceases.

(ii) Hedge accounting

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

(iii) Income taxes

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

(p) Critical accounting estimates and assumptions

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

Additional critical accounting estimates and assumptions include those used for determining the values of financial instruments for disclosure purposes (Note 23), estimating deferred taxes, and estimating the fair value of share-based compensation (Note 14).

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

(a) IFRS Amendments

The Company adopted the following International Financial Reporting Standards pronouncements listed below as of January 1, 2018, in accordance with their respective transitional provisions.

Financial instruments

IFRS 9, addresses the classification and measurement of all financial assets and financial liabilities and introduces a new expected credit loss impairment model as well as a substantially reformed model for hedge accounting.

Financial Assets

The Company's business model for its loans and mortgages receivable is focused primarily on collecting contractual principal and interest payments. These financial assets are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest ("SPPI"). SPPI payments are those which would typically be expected from basic lending arrangements. The majority of the Company's loans and mortgages receivable would qualify as SPPI arrangements, and therefore are measured at amortized cost.

In addition, the Company also enters into lending arrangements that include options to purchase the underlying collateral which is typically investment property that the Company may want to acquire in future periods. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss ("FVTPL").

Allowance for Credit Losses

An allowance for credit losses ("ACL") is established for all financial assets, except for financial assets classified or designated as FVTPL. The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including historical credit loss experience, and expectations about future cash flows.

Recognition and Measurement

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods for financial instruments classified at FVTPL are recognized in other gains (losses) and (expenses). Financial instruments classified at amortized cost are subsequently measured using the effective interest method.

Hedge Accounting

The Company has chosen as its accounting policy to continue to apply the hedge accounting requirements under IAS 39, "Financial Instruments: Recognition and Measurement" instead of the requirements under IFRS 9.

Impact upon adoption of IFRS 9

The Company has applied the new standard effective January 1, 2018. As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results; accordingly, all comparative period information is presented in accordance with our previous accounting policies, as described in Note 2(m). Upon adoption, the impact to the consolidated financial statements included changes to the classification and measurement of some of its loans and mortgages receivable, and available for sale financial assets to fair value through profit and loss. Furthermore, for trade and other receivables, the Company has applied the standard's simplified approach for determining impairment and has calculated an ACL based on lifetime expected credit losses. The Company has established processes in place for determining ACL that are based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the standard did not have an impact on the carrying amount of the Company's financial assets or liabilities. Additional disclosures required upon adoption of the standard are included in Note 6 and 23. The table below summarizes the impact of IFRS 9 on the classification and measurement on the Company's financial assets and liabilities.

Summary of impact upon adoption of IFRS 9, "Classification and measurement"

	IFRS 9		IAS 39	
	January 1, 2018		December 31, 2017	
(thousands of dollars)	**Measurement category**	**Carrying Amount**	Measurement category	Carrying Amount
Financial assets				
Investment in limited partnership	**FVTPL**	**$ 2,587**	FVOCI	$ 2,587
Derivative assets	**FVTPL**	**16,435**	FVTPL	16,435
Loans and mortgages receivable	**Amortized Cost**	**153,271**	Amortized Cost	255,841
Loans and mortgages receivable(1)	**FVTPL**	**102,570**	Amortized Cost	—
Equity securities designated as FVTPL	**FVTPL**	**21,720**	FVTPL	21,720
Amounts receivable	**Amortized Cost**	**25,437**	Amortized Cost	25,437
Cash and cash equivalents	**Amortized Cost**	**11,507**	Amortized Cost	11,507
Restricted cash	**Amortized Cost**	**50**	Amortized Cost	50
Financial liabilities				
Bank indebtedness	**Amortized Cost**	**$ 3,144**	Amortized Cost	$ 3,144
Mortgages	**Amortized Cost**	**1,060,339**	Amortized Cost	1,060,339
Credit facilities	**Amortized Cost**	**581,627**	Amortized Cost	581,627
Senior unsecured debentures	**Amortized Cost**	**2,595,966**	Amortized Cost	2,595,966
Convertible debentures	**Amortized Cost**	**54,293**	Amortized Cost	54,293
Accounts payable and other liabilities	**Amortized Cost**	**245,725**	Amortized Cost	245,725
Derivative liabilities	**FVTPL**	**11,343**	FVTPL	11,343

(1) The Loans whose cash flows are not solely payments of principal or interest were reclassified to FVTPL.

Revenue from contracts with customers

IFR5 15 provides a single, principles-based five-step model that applies to all contracts with customers with limited exceptions. In addition, the standard specifies how to account for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. IFRS 15 does not apply to lease contracts within the scope of IAS 17.

The majority of the Company's revenues are earned from lease contracts with tenants and are accounted for under IAS 17. Base rent, straight-line rent, realty tax recoveries, lease surrender fees and percentage rent are considered lease components and revenue recognition remains consistent with the accounting policies outlined in Note 2(l).

All other revenue from tenants such as operating cost recoveries are considered non-lease components and are subject to the guidance in IFRS 15 and are recognized in the period that services are performed and are chargeable to tenants.

Impact upon adoption of IFRS 15

The Company has applied the new standard using the full retrospective method. Upon adoption, the pattern of revenue recognition remains unchanged, as noted above, and the impact to the consolidated financial statements is limited to additional disclosure on the disaggregation of the Company's various revenue streams. Additional disclosures required upon adoption of the standard are included in Note 15.

Investment property

The amendments to IAS 40, "Investment Property", clarify the accounting guidance and evidence required when an entity transfers to, or from, investment property. The Company has adopted the amendments and will apply the guidance prospectively.

IFRIC Agenda Decision on IAS 7, "Statement of Cash Flows"

In June 2018, the IFRS Interpretations Committee issued an agenda decision on the classification of short-term loans and credit facilities in the statement of cash flows. The Committee concluded that in situations where short-term arrangements such as bank overdrafts that are not repayable on demand and do not often fluctuate from being negative to positive should not be included as components of cash and cash equivalents. As a result, the Company no longer includes bank indebtedness as a part of cash and cash equivalents, but rather as a form of financing activity. Comparative information in the consolidated statements of cash flows have been reclassified to conform with the current period's presentation.

(b) Recent Accounting Pronouncements Not Yet Adopted

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Company and are described in detail below:

Leases

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

IFRS 16 is required for annual periods beginning on or after January 1, 2019. The Company has assessed the impact of IFRS 16 to its consolidated financial statements and has concluded that there is no significant impact as leases with tenants will continue to be accounted for as operating leases consistent with current accounting standards.

Uncertainty over income tax treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company has assessed the impact of IFRIC 23 and has concluded that there will be no impact to its consolidated financial statements on adoption of these amendments.

4. INVESTMENT PROPERTIES

(a) Activity

The following tables summarize the changes in the Company's investment properties for the year ended December 31, 2018 and year ended December 31, 2017:

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

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

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

Investment properties with a fair value of $3.0 billion (December 31, 2017 – $2.6 billion) are pledged as security for $1.9 billion (December 31, 2017 – $1.6 billion) in mortgages and credit facilities.

(b) Investment property valuation

Stabilized overall capitalization, terminal, and discount rates by region for investment properties – shopping centres are set out in the table below:

As at	December 31, 2018				December 31, 2017			
	Weighted Average				Weighted Average			
($ millions)	**Central Region**	**Eastern Region**	**Western Region**	**Total**	Central Region	Eastern Region	Western Region	Total
Overall Capitalization Rate	**5.0%**	**5.9%**	**5.2%**	**5.3%**	5.1%	5.9%	5.2%	5.3%
Terminal Capitalization Rate	**5.2%**	**6.2%**	**5.4%**	**5.5%**	5.1%	6.0%	5.3%	5.4%
Discount Rate	**5.7%**	**6.8%**	**6.0%**	**6.1%**	5.8%	6.6%	5.8%	6.0%
Fair Value	**$ 4,431**	**$ 2,030**	**$ 3,229**	**$ 9,690**	$ 4,204	$ 1,973	$ 3,140	$ 9,317

The sensitivity of the fair values of shopping centres to stabilized overall capitalization rates as at December 31, 2018 is set out in the table below:

As at December 31, 2018	*(millions of dollars)*
(Decrease) Increase in stabilized overall capitalization rate	Resulting increase (decrease) in fair value of shopping centres
(0.75%)	$ 1,461
(0.50%)	$ 923
(0.25%)	$ 439
0.25%	$ (399)
0.50%	$ (763)
0.75%	$ (1,097)

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in a $88 million increase or a $88 million decrease, respectively, in the fair value of shopping centres. SNOI is not a measure defined by IFRS. SNOI reflects stable property operations, assuming a certain level of vacancy, capital and operating expenditures required to maintain a stable occupancy rate. The average vacancy rates used in determining SNOI for non-anchor tenants generally range from 2% to 5%. A 1% increase in SNOI coupled with a 0.25% decrease in the stabilized capitalization rate would result in an increase in the fair value of shopping centres of $531 million, and a 1% decrease in SNOI coupled with a 0.25% increase in the stabilized capitalization rate would result in a decrease in the fair value of shopping centres of $483 million.

(c) Investment properties – Acquisitions

During the years ended December 31, 2018 and 2017, the Company acquired shopping centres and development land for rental income and future development and redevelopment opportunities as follows:

Year ended December 31	2018		2017	
	Shopping Centres	**Development Land**	Shopping Centres	Development Land
Total purchase price, including acquisition costs	**$ 130,153**	**$ 1,794**	$ 287,206	$ —
Debt assumption on acquisition	**—**	**—**	(32,337)	—
Deposit on investment property applied	**—**	**—**	(189,200)	—
Total cash paid	**$ 130,153**	**$ 1,794**	$ 65,669	$ —

(d) Investment properties classified as held for sale

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

As at		December 31, 2018	December 31, 2017
Aggregate fair value	$	**85,661**	$ 98,112
Mortgages secured by investment properties classified as held for sale	$	**—**	$ 7,079
Weighted average effective interest rate of mortgages secured by investment properties classified as held for sale		**N/A**	6.7%

The decrease of $12.5 million in investment properties classified as held for sale from December 31, 2017, primarily arose from the dispositions completed in the period and changes in fair value.

For the years ended December 31, 2018 and 2017, the Company sold shopping centres and development land as follows:

		Year ended December 31	
		2018	2017
Total selling price	$	**132,015**	$ 90,074
Vendor take-back mortgage on sale		**(29,536)**	—
Property selling costs		**(2,556)**	(1,667)
Total cash proceeds	$	**99,923**	$ 88,407

(e) Reconciliation of investment properties to total assets

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

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

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

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

5. HOTEL PROPERTY

On July 4, 2018, the Company acquired a 60% non-managing interest in the Hazelton Hotel ("hotel property") located in Toronto, Ontario. The hotel property is a mixed-use luxury hotel located in Yorkville Village. The total purchase price before closing costs was $45.0 million.

The Company acquired an interest in a joint operation and exercises joint control over the assets, liabilities, and operations of the hotel property. The transaction was accounted for as a business combination under IFRS 3 "Business Combinations". The Company recognized a gain on the purchase of the hotel property of $14.0 million and incurred transaction costs of $2.1 million, which have been expensed in 'Other gains (losses) and (expenses)' in the Company's consolidated statements of income.

The purchase price was below market value as a result of a call option held by the Company on the property. The purchase price was settled through the repayment of a mortgage receivable owed to the Company by the vendor.

The following table summarizes the allocation of the purchase price to the fair value of each major asset acquired and net liability assumed as at the acquisition date.

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

6. LOANS, MORTGAGES AND OTHER ASSETS

As at		**December 31, 2018**		December 31, 2017
Non-current				
Loans and mortgages receivable classified as FVTPL (a)	**$**	**20,511**	$	—
Loans and mortgages receivable classified as amortized cost (a)(b)		**57,003**		130,576
Other investments		**15,834**		2,587
Total non-current	**$**	**93,348**	$	133,163
Current				
Loans and mortgages receivable classified as FVTPL (a)	**$**	**87,106**	$	—
Loans and mortgages receivable classified as amortized cost (a)(b)		**160,043**		125,265
FVTPL investments in securities (c)		**23,562**		21,720
Total current	**$**	**270,711**	$	146,985
Total	**$**	**364,059**	$	280,148

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at December 31, 2018, these receivables bear interest at weighted average effective interest rates of 9.7% (December 31, 2017 – 7.9%) and mature between 2019 and 2029. Effective January 1, 2018, the Company reclassified certain loans and mortgages receivable to FVTPL from amortized cost upon adoption of IFRS 9.

(b) As at December 31, 2018, the Company’s loans and mortgages receivable included $131.3 million representing the Company's share of $208.5 million of priority ranking mortgages on a development project at the southwest corner of Yonge Street and Bloor Street in Toronto, Ontario. A portion of the balance is due on September 1, 2019 with the remainder due on September 1, 2020 subject to early prepayment and extension provisions.

(c) From time to time, the Company invests in publicly traded real estate and related securities. These securities are recorded at market value. Realized and unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses).

Scheduled principal receipts of loans and mortgages receivable and the weighted average effective floating or fixed interest rates as at December 31, 2018 are as follows:

	Scheduled Receipts	Weighted Average Effective Interest Rate
2019	$ 243,529	9.7%
2020	52,353	11.9%
2021	4,650	4.8%
2022	—	—%
2023	1,711	5.5%
2024 to 2028	18,800	5.5%
	$ 321,043	9.7%
Unamortized deferred financing fees and accrued interest	3,620	
	$ 324,663	
Current	$ 247,149	9.7%
Non-current	77,514	9.8%
Total	$ 324,663	9.7%

7. AMOUNTS RECEIVABLE

As at	**December 31, 2018**	December 31, 2017
Trade receivables (net of allowances for doubtful accounts of $2.5 million; December 31, 2017 – $2.6 million)	**$ 30,862**	$ 23,698
Corporate and other amounts receivable	**5,529**	1,739
Total	**$ 36,391**	$ 25,437

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

8. OTHER ASSETS

As at	Note	December 31, 2018	December 31, 2017
Non-current			
Fixtures, equipment and computer hardware and software (net of accumulated amortization of $10.1 million; December 31, 2017 - $7.2 million)		**$ 13,352**	$ 12,686
Deferred financing costs on credit facilities (net of accumulated amortization of $4.5 million; December 31, 2017 - $3.9 million)		**2,327**	2,379
Environmental indemnity and insurance proceeds receivable	13(a)	**4,707**	6,247
Derivatives at fair value	23	**9,983**	10,696
Total non-current		**$ 30,369**	$ 32,008
Current			
Deposits and costs on investment properties under option		**$ 6,080**	$ 1,587
Prepaid expenses		**6,535**	7,654
Other deposits		**316**	349
Restricted cash		**462**	50
Derivatives at fair value	23	**12,545**	5,739
Total current		**$ 25,938**	$ 15,379
Total		**$ 56,307**	$ 47,387

9. CAPITAL MANAGEMENT

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

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

As at	December 31, 2018	December 31, 2017
Liabilities (principal amounts outstanding)		
Bank indebtedness	**$ 7,226**	$ 3,144
Mortgages	**1,287,247**	1,060,342
Credit facilities	**626,172**	581,627
Mortgages under equity accounted joint ventures (at the Company's interest)	**41,081**	41,987
Credit facilities under equity accounted joint venture (at the Company's interest)	**34,135**	102,748
Senior unsecured debentures	**2,450,000**	2,600,000
Convertible debentures	**—**	55,093
Equity Capitalization		
Common shares (based on closing per share price of $18.85; December 31, 2017 – $20.72)	**4,803,505**	5,064,612
Total capital employed	**$ 9,249,366**	$ 9,509,553

The Company is subject to financial covenants in agreements governing its senior unsecured debentures and its credit facilities. In accordance with the terms of the Company's credit agreements, all ratios are calculated with joint ventures proportionately consolidated. As at December 31, 2018, the Company remains in compliance with all of its applicable financial covenants.

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

As at	Measure/ Covenant	**December 31, 2018**	December 31, 2017
Net debt to total assets		**42.1%**	43.4%
Unencumbered aggregate assets to unsecured debt, using 10 quarter average capitalization rate (1)	≥1.3	**2.3**	2.1
Shareholders' equity, using four quarter average (billions) (1)	>$2.0B	**$ 4.8**	$ 4.5
Secured indebtedness to total assets (1)	<35%	**14.0%**	12.7%
For the rolling four quarters ended			
Interest coverage (Adjusted EBITDA to interest expense) (1)	>1.65	**2.5**	2.5
Fixed charge coverage (Adjusted EBITDA to debt service) (1)	>1.50	**2.2**	2.1

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

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

- Debt consists of principal amounts outstanding on credit facilities and mortgages, and the par value of senior unsecured debentures;
- Net debt is calculated as Debt, as defined above, reduced by cash balances at the end of the period;
- Secured indebtedness includes mortgages and any draws under the secured facilities that are collateralized against investment property.
- Adjusted EBITDA, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the fair value of investment properties, other gains (losses) and (expenses) and other non-cash or non-recurring items. The Company also adjusts for incremental leasing costs, which is a recognized adjustment to Funds from Operations, in accordance with the recommendations of the Real Property Association of Canada.
- Fixed charges include regular principal and interest payments and capitalized interest in the calculation of interest expense.
- Unencumbered assets include the value of assets that have not been pledged as security under any credit agreement or mortgage. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt, which consists of the bank indebtedness, unsecured credit facilities, and senior unsecured debentures.

10. MORTGAGES AND CREDIT FACILITIES

As at	December 31, 2018	December 31, 2017
Fixed rate mortgages	**$ 1,285,908**	$ 1,060,339
Unsecured facilities	**503,005**	485,727
Secured facilities	**123,167**	95,900
Mortgages and credit facilities	**$ 1,912,080**	$ 1,641,966
Current	**$ 233,203**	$ 172,525
Mortgages on investment properties classified as held for sale	**—**	7,079
Non-current	**1,678,877**	1,462,362
Total	**$ 1,912,080**	$ 1,641,966

Mortgages and secured facilities are secured by the Company's investment properties. As at December 31, 2018, approximately $3.0 billion (December 31, 2017 – $2.6 billion) of investment properties out of $9.8 billion (December 31, 2017 – $9.4 billion) (Note 4(a)) had been pledged as security under the mortgages and the secured facilities.

As at December 31, 2018, mortgages bear coupon interest at a weighted average coupon rate of 4.0% (December 31, 2017 – 4.3%) and mature in the years ranging from 2019 to 2031. The weighted average effective interest rate on all mortgages as at December 31, 2018 is 4.0% (December 31, 2017 – 4.3%).

Principal repayments of mortgages outstanding as at December 31, 2018 are as follows:

	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2019	$ 24,628	$ 96,231	$ 120,859	6.5%
2020	22,425	67,893	90,318	4.4%
2021	22,185	73,397	95,582	4.6%
2022	23,773	147,954	171,727	3.9%
2023	22,490	—	22,490	N/A
2024 to 2031	94,051	692,220	786,271	3.6%
	$ 209,552	$ 1,077,695	$ 1,287,247	4.0%
Unamortized deferred financing costs and premiums, net			(1,339)	
Total			$ 1,285,908	

The Company has the ability under its unsecured credit facilities to draw funds based on Canadian bank prime rates and Canadian bankers' acceptances ("BA rates") for Canadian dollar-denominated borrowings, and LIBOR rates or U.S. prime rates for U.S. dollar-denominated borrowings. As of December 31, 2018, the Company had drawn US$368.7 million, as well as CAD$7.2 million in bank indebtedness on its unsecured credit facilities. Concurrently with the U.S. dollar draws, the Company entered into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

During the first quarter of 2018, the Company entered into a new borrowing tranche under an existing credit facility with a borrowing capacity of CAD$50 million, key terms of which are presented in the table below. The Company also extended the maturity of its $15.9 million secured facility to March 31, 2019 on substantially the same terms.

In the second quarter of 2018, the Company extended the maturities of its $800 million unsecured facility and $7.5 million secured facility to, June 30, 2023 and April 30, 2019, respectively.

In the third quarter of 2018, the Company entered into two new secured credit facilities with a borrowing capacity of CAD $20.7 million and CAD$4.3 million, respectively, key terms of which are presented in the table below. The Company also extended the maturity of its $7.5 million secured facility to October 30, 2019.

In the fourth quarter of 2018, the Company entered into one new secured facility with a borrowing capacity of CAD$6.8 million, key terms of which are presented in the table below. The Company also extended the maturity of its $115 million secured construction facility to August 13, 2019.

The Company's credit facilities as at December 31, 2018 are summarized in the table below:

As at December 31, 2018	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Unsecured Operating Facilities						
Revolving facility maturing 2023 [1]	$ 800,000	$ (301,488)	$ (23,843)	$ 474,669	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	June 30, 2023
Non-revolving facility maturing 2020 [2]	150,000	(150,519)	(17,560)	—	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	October 31, 2020
Additional Tranche [3]	50,000	(50,998)	—	—	BA + 1.10% or Prime + 0.10% or US$ LIBOR + 1.10%	October 31, 2020
Secured Construction Facilities						
Maturing 2019	115,000	(74,452)	(668)	39,880	BA + 1.125% or Prime + 0.125%	August 13, 2019
Maturing 2019	15,907	(15,572)	—	335	BA + 1.125% or Prime + 0.125%	March 31, 2019
Secured Facilities						
Maturing 2019	20,734	(2,700)	(793)	17,241	BA + 1.125% or Prime + 0.125%	December 31, 2019
Maturing 2019	11,875	(11,875)	—	—	BA + 1.125% or Prime + 0.125%	September 27, 2019
Maturing 2019	7,500	(7,500)	—	—	BA + 1.125% or Prime + 0.125%	October 30, 2019
Maturing 2022	4,313	(4,313)	—	—	BA + 1.125% or Prime + 0.125%	September 28, 2022
Maturing 2022	6,755	(6,755)		—	BA + 1.125% or Prime + 0.125%	December 19, 2022
Total	$ 1,182,084	$ (626,172)	$ (42,864)	$ 532,125		

[1] The Company had drawn in U.S. dollars the equivalent of CAD$294.8 million which was revalued at CAD$301.5 million as at December 31, 2018.

[2] The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$150.5 million as at December 31, 2018. Maximum borrowing capacity for the letters of credit is CAD$35.0 million of which $17.6 million has been drawn as at December 31, 2018.

[3] The Company had drawn in U.S. dollars the equivalent of CAD$50 million which was revalued at CAD$51.0 million as at December 31, 2018.

11. SENIOR UNSECURED DEBENTURES

As at				**December 31, 2018**		December 31, 2017
		Interest Rate				
Series	Maturity Date	Coupon	Effective	**Principal Outstanding**	**Liability**	Liability
J	August 30, 2018	5.25%	5.66%	**$ —**	**$ —**	$ 49,868
K	November 30, 2018	4.95%	5.17%	**—**	**—**	99,807
L	July 30, 2019	5.48%	5.61%	**150,000**	**149,891**	149,712
M	April 30, 2020	5.60%	5.60%	**175,000**	**174,994**	174,991
N	March 1, 2021	4.50%	4.63%	**175,000**	**174,553**	174,361
O	January 31, 2022	4.43%	4.59%	**200,000**	**199,091**	198,824
P	December 5, 2022	3.95%	4.18%	**250,000**	**247,976**	247,512
Q	October 30, 2023	3.90%	3.97%	**300,000**	**299,114**	298,951
R	August 30, 2024	4.79%	4.72%	**300,000**	**301,016**	301,172
S	July 31, 2025	4.32%	4.24%	**300,000**	**301,401**	301,587
T	May 6, 2026	3.60%	3.56%	**300,000**	**300,775**	300,865
U	July 12, 2027	3.75%	3.82%	**300,000**	**298,467**	298,316
Weighted Average or Total		4.32%	4.36%	**$ 2,450,000**	**$ 2,447,278**	$ 2,595,966
Current				**150,000**	**149,891**	149,675
Non-current				**2,300,000**	**2,297,387**	2,446,291
Total				**$ 2,450,000**	**$ 2,447,278**	$ 2,595,966

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

12. CONVERTIBLE DEBENTURES

As at				**December 31, 2018**			December 31, 2017		
		Interest Rate							
Series	Maturity Date	Coupon	Effective	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
J	February 28, 2020	4.45%	5.34%	**—**	**—**	**—**	55,093	54,293	386
	Weighted Average or Total	4.45%	5.34%	**$ —**	**$ —**	**$ —**	$ 55,093	$ 54,293	$ 386
	Current			**—**	**—**		—	—	
	Non-current			**—**	**—**		55,093	54,293	
	Total			**$ —**	**$ —**	**$ —**	$ 55,093	$ 54,293	$ 386

(a) Principal and interest

During the year ended December 31, 2018, no common shares (year ended December 31, 2017 – 0.1 million common shares) were issued to pay accrued interest to holders of the convertible debentures (year ended December 31, 2017 – $2.4 million).

During the year ended December 31, 2018, the Company paid $1.0 million (year ended December 31, 2017 – $3.9 million) in cash to pay accrued interest to holders of convertible debentures.

(b) Principal redemption

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

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at	Note	December 31, 2018	December 31, 2017
Non-current			
Asset retirement obligations (a)		**$ 2,642**	$ 5,179
Ground leases payable		**10,405**	9,010
Derivatives at fair value	23	**666**	844
Deferred purchase price of investment property – shopping centre		**7,125**	1,783
Deferred income		**—**	98
Total non-current		**$ 20,838**	$ 16,914
Current			
Trade payables and accruals		**$ 67,295**	$ 61,538
Construction and development payables		**62,563**	47,603
Dividends payable		**54,788**	52,553
Interest payable		**36,056**	37,145
Tenant deposits		**37,451**	30,816
Derivatives at fair value	23	**5,706**	10,499
Other liabilities		**402**	—
Total current		**$ 264,261**	$ 240,154
Total		**$ 285,099**	$ 257,068

(a) The Company has obligations for environmental remediation at certain sites within its property portfolio. The Company has also recognized a related environmental indemnity and insurance proceeds receivable totaling $4.7 million in other assets (Note 8).

14. SHAREHOLDERS' EQUITY

(a) Share capital

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

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

Year ended December 31			**2018**		2017
	Note	**Number of Common Shares**	**Stated Capital**	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of year		**244,431**	**$ 3,159,542**	243,507	$ 3,142,399
Payment of interest on convertible debentures	12	**—**	**—**	124	2,442
Conversion of convertible debentures	12	**—**	**—**	4	107
Exercise of options, and settlement of any restricted, performance and deferred share units		**640**	**11,556**	796	14,770
Issuance of common shares		**9,757**	**200,019**	—	—
Share issue costs and other, net of tax effect		**—**	**(6,169)**	—	(176)
Issued and outstanding at end of year		**254,828**	**$ 3,364,948**	244,431	$ 3,159,542

Quarterly dividends declared per common share were $0.860 for the year ended December 31, 2018 (year ended December 31, 2017 – $0.860).

(b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

Year ended December 31				**2018**				2017
	Contributed Surplus	**Convertible Debentures Equity Component**	**Stock-based Compensation Plan Awards**	**Total**	Contributed Surplus	Convertible Debentures Equity Component	Stock-based Compensation Plan Awards	Total
Balance at beginning of year	**$ 24,517**	**$ 386**	**$ 17,067**	**$ 41,970**	$ 20,954	$ 4,224	$ 16,521	$ 41,699
Redemption of convertible debentures	**386**	**(386)**	**—**	**—**	3,834	(3,837)	—	(3)
Repurchase of convertible debentures	**—**	**—**	**—**	**—**	1	(1)	—	—
Options vested	**—**	**—**	**1,121**	**1,121**	—	—	896	896
Exercise of options	**—**	**—**	**(709)**	**(709)**	(272)	—	(1,235)	(1,507)
Deferred share units	**—**	**—**	**785**	**785**	—	—	749	749
Restricted share units	**—**	**—**	**1,576**	**1,576**	—	—	2,234	2,234
Performance share units	**—**	**—**	**2,394**	**2,394**	—	—	1,447	1,447
Settlement of any restricted, performance and deferred share units	**—**	**—**	**(2,943)**	**(2,943)**	—	—	(3,545)	(3,545)
Balance at end of year	**$ 24,903**	**$ —**	**$ 19,291**	**$ 44,194**	$ 24,517	$ 386	$ 17,067	$ 41,970

(c) Stock options

As of December 31, 2018, the Company is authorized to grant up to 19.7 million (December 31, 2017 – 19.7 million) common share options to the employees, officers and directors of the Company. As of December 31, 2018, 4.4 million (December 31, 2017 – 5.5 million) common share options are available to be granted to the employees, officers and directors of the Company. In addition, as at December 31, 2018, 4.7 million common share options were outstanding. Options granted by the Company expire 10 years from the date of grant and vest over five years.

The outstanding options as at December 31, 2018 have exercise prices ranging from $9.81 – $20.24 (December 31, 2017 – $9.81 – $20.24).

As at			**December 31, 2018**					December 31, 2017		
		Outstanding Options			**Vested Options**		Outstanding Options			Vested Options
Exercise Price Range ($)	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	**Weighted Average Remaining Life (years)**	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share
9.81 – 18.56	**1,239**	**$ 17.70**	**4.9**	**954**	**$ 17.51**	933	$ 16.49	3.6	833	$ 16.33
18.57 – 19.78	**1,200**	**$ 19.38**	**6.1**	**705**	**$ 19.24**	1,171	$ 18.60	6.0	688	$ 18.67
19.79 – 20.05	**1,302**	**$ 20.02**	**8.9**	**76**	**$ 19.96**	1,015	$ 19.63	7.9	242	$ 19.62
20.06 – 20.24	**995**	**$ 20.09**	**8.1**	**228**	**$ 20.11**	1,014	$ 20.09	9.1	29	$ 20.24
9.81 – 20.24	**4,736**	**$ 19.27**	**7.0**	**1,963**	**$ 18.53**	4,133	$ 18.74	6.7	1,792	$ 17.74

During the year ended December 31, 2018, $1.1 million (year ended December 31, 2017 – $0.9 million) was recorded as an expense related to stock options.

Year ended December 31		2018		2017
	Number of Common Shares Issuable (in thousands)	**Weighted Average Exercise Price**	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price
Outstanding at beginning of year	**4,132**	**$ 18.74**	4,206	$ 18.15
Granted (a)	**1,197**	**20.03**	869	20.07
Exercised (b)	**(505)**	**16.75**	(827)	17.12
Forfeited	**(88)**	**19.59**	(114)	18.91
Expired	**—**	**—**	(1)	17.67
Outstanding at end of year	**4,736**	**$ 19.27**	4,133	$ 18.74

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

	2018	2017
Grant date	**March 2, 2018**	March 17, 2017
Share options granted (thousands)	**1,197**	869
Term to expiry	**10 years**	10 years
Exercise price	**$20.03**	$20.07
Weighted average volatility rate	**13.5%**	15.0%
Weighted average expected option life	**5.5 years**	6 years
Weighted average dividend yield	**4.33%**	4.26%
Weighted average risk free interest rate	**2.01%**	1.31%
Fair value (thousands)	**$1,395**	$1,125

(b) The weighted average market share price at which options were exercised for the year ended December 31, 2018 was $20.19 (year ended December 31, 2017 – $20.42).

(d) Share unit plans

The Company's share unit plans include a Directors' Deferred Share Unit ("DSU") Plan and a Restricted Share Unit ("RSU") Plan that provides for the issuance of Restricted Share Units and Performance Share Units ("PSU"). Under the DSU and RSU plans, a participant is entitled to receive one common share, or equivalent cash value, at the Company's option, (i) in the case of a DSU, upon redemption by the holder after the date that the holder ceases to be a director of the Company and any of its subsidiaries (the "Retirement Date") but no later than December 15 of the first calendar year commencing after the Retirement Date, and (ii) in the case of a RSU, on December 15 of the third calendar year following the year of grant for RSUs granted prior to June 1, 2015, and, for all subsequent RSUs granted, on the third anniversary of the grant date. Under the PSU plan, a participant is entitled to receive 0.5 – 1.5 common shares per PSU granted, or equivalent cash value at the Company's option, on the third anniversary of the grant date. Holders of units granted under each plan receive dividends in the form of additional units when the Company declares dividends on its common shares.

Year ended December 31		**2018**		2017
(in thousands)	**DSUs**	**RSUs / PSUs**	DSUs	RSUs / PSUs
Outstanding at beginning of year	**301**	**482**	275	468
Granted (a) (b)	**28**	**221**	28	191
Dividends declared	**12**	**27**	12	25
Exercised	**(52)**	**(111)**	(14)	(182)
Forfeited	**—**	**(31)**	—	(20)
Outstanding at end of year	**289**	**588**	301	482
Expense recorded for the year	**$549**	**$3,555**	$502	$3,339

(a) The fair value of the DSUs granted during the year ended December 31, 2018 was \$0.5 million (year ended December 31, 2017 – \$0.5 million), measured based on the Company's prevailing share price on the date of grant. The fair value of the RSUs granted during the year ended December 31, 2018 was \$1.6 million (year ended December 31, 2017 – \$1.6 million), measured based on the Company's share price on the date of grant.

(b) The fair value of the PSUs granted during the year ended December 31, 2018 was \$2.9 million (year ended December 31, 2017 – \$2.2 million). The fair value is calculated using the Monte-Carlo simulation model based on the assumptions below as well as a market adjustment factor based on the total shareholder return of the Company's common shares relative to the S&P/TSX Capped REIT Index.

	2018	2017
Grant date	**March 2, 2018**	March 17, 2017
PSUs granted (thousands)	**140**	112
Term to expiry	**3 years**	3 years
Weighted average volatility rate	**14.7%**	14.3%
Weighted average correlation	**37.3%**	40.4%
Weighted average total shareholder return	**-3.3%**	0.5%
Weighted average risk free interest rate	**1.87%**	0.95%
Fair value (thousands)	**\$2,866**	\$2,238

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

15. NET OPERATING INCOME

Net Operating Income by Component

The Company's net operating income by component is presented below:

		Year ended December 31	
	% change	**2018**	2017
Property rental revenue			
Base rent		**$ 452,445**	$ 436,173
Operating cost recoveries		**107,604**	102,214
Realty tax recoveries		**137,909**	134,168
Lease surrender fees		**1,983**	1,612
Percentage rent		**4,351**	3,325
Straight-line rent adjustment		**7,062**	2,684
Prior year operating cost and tax recovery adjustments		**(2,320)**	(1,678)
Temporary tenants, storage, parking and other		**20,561**	15,961
Total Property rental revenue	**5.1%**	**729,595**	694,459
Property operating costs			
Recoverable operating expenses		**122,300**	117,177
Recoverable realty tax expense		**156,084**	149,663
Prior year realty tax expense		**(3,100)**	(4,228)
Other operating costs and adjustments		**(462)**	(5,663)
Total Property operating costs		**274,822**	256,949
Total NOI	**3.9%**	**$ 454,773**	$ 437,510
NOI margin		**62.3%**	63.0%

Net Operating Income by Segment

Net operating income is presented by segment as follows:

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

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

[1] Other items principally consist of intercompany eliminations.

For the year ended December 31, 2018, property operating costs include $20.7 million (year ended December 31, 2017 – $20.2 million) related to employee compensation.

16. INTEREST AND OTHER INCOME

	Note		Year ended December 31 2018		2017
Interest, dividend and distribution income from marketable securities	6	**$**	**1,994**	$	936
Interest income from loans and mortgages receivable classified as FVTPL [1]	6		**5,060**		—
Interest income from loans, deposit and mortgages receivable at amortized cost	6		**11,323**		19,070
Fees and other income			**8,052**		8,395
Total		**$**	**26,429**	$	28,401

[1] Effective January 1, 2018, the Company reclassified certain loans and mortgages receivable to FVTPL from amortized cost upon adoption of IFRS 9.

17. INTEREST EXPENSE

	Note		Year ended December 31 2018		2017
Mortgages	10	**$**	**46,212**	$	47,244
Credit facilities	10		**18,652**		10,890
Senior unsecured debentures	11		**113,284**		115,798
Convertible debentures	12		**446**		5,150
Total interest expense			**178,594**		179,082
Interest capitalized to investment properties under development			**(25,354)**		(21,671)
Interest expense		**$**	**153,240**	$	157,411
Convertible debenture interest paid in common shares	12		**—**		(2,442)
Change in accrued interest			**1,089**		870
Effective interest rate less than (in excess of) coupon interest rate on senior unsecured and convertible debentures			**1,177**		911
Coupon interest rate in excess of effective interest rate on assumed mortgages			**967**		1,332
Amortization of deferred financing costs			**(5,304)**		(5,952)
Cash interest paid associated with operating activities		**$**	**151,169**	$	152,130

18. CORPORATE EXPENSES

		Year ended December 31 2018		2017
Salaries, wages and benefits	**$**	**27,418**	$	27,756
Non-cash compensation		**4,805**		4,258
Other corporate costs		**12,408**		11,630
Total corporate expenses		**44,631**		43,644
Amounts capitalized to investment properties under development		**(7,537)**		(7,202)
Corporate expenses	**$**	**37,094**	$	36,442

19. OTHER GAINS (LOSSES) AND (EXPENSES)

	Year ended December 31	
	2018	2017
Realized gain (loss) on sale of marketable securities	**$ 4,232**	$ (1,165)
Unrealized gain (loss) on marketable securities	**(623)**	3,313
Net gain (loss) on prepayments of debt (non-cash)	**(726)**	(3,032)
Gain on below market purchase [1]	**13,975**	—
Transaction costs [1]	**(2,052)**	—
Proceeds from Target [2]	**—**	474
Investment properties selling costs	**(2,556)**	(1,667)
REIT conversion costs	**(1,540)**	—
Other	**23**	171
Total	**$ 10,733**	$ (1,906)

[1] In connection with acquisition of hotel property - Refer to Note 5.

[2] In connection with proceeds recognized under Target Canada's CCAA plan of arrangement related to the closure of two Target stores in the Company's portfolio in 2015.

20. INCOME TAXES

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

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

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

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

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

The following reconciles the Company's expected tax expense computed at the statutory tax rate to its actual tax expense for the year ended December 31, 2018 and 2017:

	Year ended December 31	
	2018	2017
Income tax expense at the Canadian federal and provincial income tax rate of 26.7% (December 31, 2017 - 26.6%)	**$ 115,074**	$ 204,623
Increase (decrease) in income taxes due to:		
Non-taxable portion of capital gains and other	**(31,681)**	(76,413)
Impact of change in statutory income tax rate	**—**	1,792
Non-controlling interests in income of consolidated limited partnership	**(2,198)**	(2,945)
Other	**(2,044)**	(1,956)
Deferred income taxes	**$ 79,151**	$ 125,101

21. PER SHARE CALCULATIONS

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

(in thousands)	Year ended December 31	
	2018	2017
Net income attributable to common shareholders	**$ 343,606**	$ 633,089
Adjustment for dilutive effect of convertible debentures, net of tax	**328**	3,427
Income for diluted per share amounts	**$ 343,934**	$ 636,516
Weighted average number of shares outstanding for basic per share amounts	**249,349**	244,754
Options, restricted, performance and deferred share units	**1,126**	399
Convertible debentures	**327**	4,260
Weighted average diluted share amounts	**250,802**	249,413

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

Year ended December 31	Number of Shares if Exercised		
(in dollars, number of options in thousands)	Exercise Price	**2018**	2017
Common share options	$20.24	**145**	—

22. RISK MANAGEMENT

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

(a) Interest rate risk

The Company structures its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate and other credit market fluctuations. A portion of the Company's mortgages, loans and credit facilities are floating rate instruments. From time to time, the Company may enter into interest rate swap contracts, bond forwards or other financial instruments to modify the interest rate profile of its outstanding debt or highly probable future debt issuances without an exchange of the underlying principal amount.

Interest represents a significant cost in financing the ownership of real property. As at December 31, 2018, the Company has a total of $0.6 billion of outstanding debt bearing interest at variable rates. If the average variable interest rate was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would increase or decrease, respectively, by $6.3 million.

The Company has a total of $0.8 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages and senior unsecured debentures maturing between January 1, 2019 and December 31, 2021 at a weighted average coupon interest rate of 5.3%. If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would increase or decrease, respectively, by $8.1 million.

As at December 31, 2018, the Company's loans and mortgages receivable that earn interest at variable rates total $142.0 million. If the average variable interest rate was 100 basis points higher than the existing rate, the Company's annual interest income would increase by approximately $1.4 million, and if the variable interest rate were 100 basis points lower, the Company's annual interest income would decrease by approximately $1.1 million.

The Company's loans and mortgages receivable that earn interest at fixed rates total $179.0 million. If the loans were refinanced at 100 basis points higher or lower than the existing rate, the Company's annual interest income would increase or decrease by approximately $1.8 million.

(b) Credit risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable or unwilling to fulfill their lease commitments or loan obligations. The Company mitigates the risk of credit loss from tenants by investing in well-located properties in urban markets that attract high quality tenants, ensuring that its tenant mix is diversified, and by limiting its exposure to any one tenant. As at December 31, 2018, Loblaw Companies Limited ("Loblaw") is the Company's largest tenant and accounts for 10.0% of the Company's annualized minimum rent and has an investment grade credit rating. A tenant's success over the term of its lease and its ability to fulfill its lease obligations is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to the expiry date. The Company mitigates the risk of credit loss from debtors by undertaking a number of activities typical in lending arrangements including obtaining registered mortgages on the real estate properties.

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

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

(thousands of Canadian dollars)	**2018**
Within 1 year	**$ 430,700**
After 1 year, but not more than 5 years	**1,161,341**
More than 5 years	**747,231**
	$ 2,339,272

(c) Liquidity risk

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

An analysis of the Company's contractual maturities of its material financial liabilities and other contractual commitments as at December 31, 2018 is set out below:

As at December 31, 2018	Payments Due by Period				
	2019	2020 to 2021	2022 to 2023	Thereafter	Total
Scheduled mortgage principal amortization	$ 24,628	$ 44,610	$ 46,263	$ 94,051	$ 209,552
Mortgage principal repayments on maturity	96,231	141,290	147,954	692,220	1,077,695
Credit facilities and bank indebtedness	112,099	201,517	319,782	—	633,398
Senior unsecured debentures	150,000	350,000	750,000	1,200,000	2,450,000
Interest obligations (1)	166,685	276,648	209,154	202,315	854,802
Land leases (expiring between 2023 and 2061)	1,250	2,239	1,912	18,180	23,581
Contractual committed costs to complete current development projects	39,245	15,294	—	—	54,539
Other committed costs	82,955	—	—	—	82,955
Total contractual obligations	$ 673,093	$ 1,031,598	$ 1,475,065	$ 2,206,766	$ 5,386,522

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2018 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using unsecured credit facilities; and issuing equity when considered appropriate. As at December 31, 2018, there was $503.0 million (December 31, 2017 – $485.7 million) of cash advances drawn against the Company's unsecured credit facilities.

In addition, as at December 31, 2018, the Company has $35.7 million (December 31, 2017 – $34.9 million) of outstanding letters of credit issued by financial institutions primarily to support certain of the Company's contractual obligations and $7.2 million (December 31, 2017 – $3.1 million) of bank overdrafts.

23. FAIR VALUE MEASUREMENT

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

		Carrying Amount		Fair Value	
	Notes	**2018**	2017	**2018**	2017
Financial assets					
FVTPL investments in securities	6	**$ 23,562**	$ 21,720	**$ 23,562**	$ 21,720
Loans and mortgages receivable classified as FVTPL (1)	6	**107,617**	—	**107,617**	—
Loans and mortgages receivable classified as amortized cost	6	**217,046**	255,841	**216,791**	255,447
Other investments	6	**11,834**	2,587	**11,834**	2,587
Derivatives at fair value	8	**22,528**	16,435	**22,528**	16,435
Financial liabilities					
Mortgages	10	**$ 1,285,908**	$ 1,060,339	**$ 1,288,695**	$ 1,072,212
Credit facilities	10	**626,172**	581,627	**626,172**	581,627
Senior unsecured debentures	11	**2,447,278**	2,595,966	**2,477,968**	2,696,511
Convertible debentures	12	**—**	54,293	**—**	55,644
Derivatives at fair value	13	**6,372**	11,343	**6,372**	11,343

(1) Effective January 1, 2018, the Company reclassified certain loans and mortgages receivable to FVTPL from amortized cost upon adoption of IFRS 9.

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

The fair value of the Company's loans and mortgages receivable classified as Level 3, are calculated based on current market rates plus borrower level risk-adjusted spreads on discounted cash flows, adjusted for allowances for non-payment and collateral related risk. As at December 31, 2018, the risk-adjusted interest rates ranged from 4.1% to 15.6% (December 31, 2017 – 3.9% to 15.0%).

The fair value of the Company's mortgages and credit facilities payable are calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at December 31, 2018, these rates ranged from 3.3% to 3.7% (December 31, 2017 – 2.4% to 3.6%).

The fair value of the senior unsecured debentures are based on closing bid risk-adjusted spreads and current underlying Government of Canada bond yields on discounted cash flows. For the purpose of this calculation, the Company uses, among others, interest rate quotations provided by financial institutions. As at December 31, 2018, these rates ranged from 2.6% to 4.1% (December 31, 2017 – 1.8% to 3.8%).

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

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

As at		**December 31, 2018**			December 31, 2017	
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Measured at fair value						
Financial Assets						
FVTPL investments in securities	**$ 23,562**	**$ —**	**$ —**	$ 21,720	$ —	$ —
Loans and mortgages receivable	**—**	**—**	**107,617**	—	—	—
Other investments	**—**	**—**	**11,834**	—	—	2,587
Derivatives at fair value – assets	**—**	**22,528**	**—**	—	16,435	—
Financial Liabilities						
Derivatives at fair value – liabilities	**—**	**6,372**	**—**	—	11,343	—
Measured at amortized cost						
Financial Assets						
Loans and mortgages receivable	**$ —**	**$ —**	**$ 216,791**	$ —	$ —	$ 255,447
Financial Liabilities						
Mortgages	**—**	**1,288,695**	**—**	—	1,072,212	—
Credit facilities	**—**	**626,172**	**—**	—	581,627	—
Senior unsecured debentures	**—**	**2,477,968**	**—**	—	2,696,511	—
Convertible debentures	**—**	**—**	**—**	55,644	—	—

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

The fair value of derivative instruments is determined using present value forward pricing and swap calculations at interest rates that reflect current market conditions. The models also take into consideration the credit quality of counterparties, interest rate curves and forward rate curves. As at December 31, 2018, the interest rates ranged from 2.0% to 4.5% (December 31, 2017 – 2.0% to 4.0%). The fair values of the Company's asset (liability) hedging instruments are as follows:

	Designated as Hedging Instrument	Maturity as at December 31, 2018	**December 31, 2018**	December 31, 2017
Derivative assets				
Bond forward contracts	Yes	February 2019	**$ 4,125**	$ 5,739
Interest rate swaps	Yes	June 2025 - March 2027	**9,983**	10,696
Cross currency swaps	No	January 2019 - February 2019	**8,420**	—
Total			**$ 22,528**	$ 16,435
Derivative liabilities				
Bond forward contracts	Yes	January 2019 - February 2019	**$ 5,706**	$ 365
Interest rate swaps	Yes	March 2022 - July 2024	**666**	844
Cross currency swaps	No		**—**	10,134
Total			**$ 6,372**	$ 11,343

24. INVESTMENT IN JOINT VENTURES

As at December 31, 2018, the Company had interests in five joint ventures that it accounts for using the equity method. The Company's joint ventures are as follows:

Name of Entity	Name of Property/Business Activity	Location	Effective Ownership December 31, 2018	Effective Ownership December 31, 2017
M+M Urban Realty LP ("MMUR") [1]	Commercial/residential properties [2]	Toronto and Ottawa, ON	**53.1%**	53.1%
College Square General Partnership	College Square	Ottawa, ON	**50.0%**	50.0%
Green Capital Limited Partnership	Royal Orchard [3]	Markham, ON	**50.0%**	50.0%
Stackt Properties LP	Shipping Container marketplace	Toronto, ON	**94.0%**	N/A
Fashion Media Group GP Ltd.	Toronto Fashion Week events	Toronto, ON	**72.0%**	50.0%

(1) MMUR is a joint venture between the Company, Main and Main Developments LP ("MMLP", further described in Note 25) and an institutional investor.

(2) For the years ended December 31, 2018 and 2017, MMUR owned 4 and 23 properties, respectively.

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

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

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

As at	**December 31, 2018**	December 31, 2017
Total assets	**$ 432,365**	$ 674,476
Total liabilities	**(136,701)**	(262,397)
Net assets at 100%	**295,664**	412,079
The Company's investment in equity accounted joint ventures	**$ 144,375**	$ 202,231

For the year ended	**December 31, 2018**	December 31, 2017
Property revenue	**$ 18,222**	$ 21,223
Property expenses	**(6,374)**	(7,727)
Increase in value of investment properties, net	**41,919**	66,610
Other income and expenses	**(4,856)**	(3,387)
Income before income taxes	**48,911**	76,719
Current income tax expense (recovery)	**(7)**	36
Net income and total comprehensive income at 100%	**$ 48,918**	$ 76,683
The Company's share of income in equity accounted joint ventures	**$ 30,411**	$ 42,860

During the year ended December 31, 2018, MMUR completed the sale of the majority of its portfolio (19 of 23 properties) for approximately $310 million.

During 2018, the Company received distributions from its joint ventures of $110.9 million (2017 - $5.9 million) and made contributions to its joint ventures of $25.1 million (2017 - $4.9 million).

As at December 31, 2018 and 2017, Main and Main Urban Realty had outstanding commitments related to acquisitions, subject to customary closing conditions, as well as capital commitments for an aggregate amount of $56.0 million (December 31, 2017 – $26.6 million). There were no outstanding commitments for College Square, Royal Orchard, Stackt LP or Fashion Media Group GP Ltd. as at December 31, 2018. The Company's share of these outstanding commitments relating to its joint ventures at its interest is $29.8 million. Main and Main Urban Realty, College Square, Royal Orchard, Stackt LP and Fashion Media Group GP Ltd. did not have any contingent liabilities as at December 31, 2018 and 2017.

25. SUBSIDIARY WITH NON-CONTROLLING INTEREST

The Company, through its direct and indirect investment, owns on a consolidated basis a 53.1% interest in M+M Urban Realty LP ("MMUR"), a joint venture between the Company, Main and Main Developments LP ("MMLP") and an institutional investor. The Company's indirect interest in MMUR is held through its partially owned venture interest in MMLP.

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

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

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

		December 31, 2018		December 31, 2017
Non-current assets	**$**	**84,070**	$	145,894
Current assets		**6,440**		1,907
Total assets	**$**	**90,510**	$	147,801
Current liabilities		**117**		488
Total liabilities		**117**		488
Net assets	**$**	**90,393**	$	147,313
Non-controlling interests	**$**	**29,830**	$	48,613

		Year ended December 31		
		2018		2017
Revenue	**$**	**5,155**	$	2,967
Share of profit from joint ventures		**23,075**		34,267
Expenses		**(3,283)**		(3,684)
Net income	**$**	**24,947**	$	33,550
Non-controlling interests	**$**	**8,232**	$	11,071

		Year ended December 31		
		2018		2017
Cash provided by operating activities	**$**	**1,768**	$	1,391
Cash used in financing activities		**(82,578)**		(844)
Cash provided by (used in) investing activities		**81,078**		(2,156)
Net increase (decrease) in cash and cash equivalents	**$**	**268**	$	(1,609)

26. CO-OWNERSHIP INTERESTS

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

		Ownership Interest	
Property	**Location**	**December 31, 2018**	December 31, 2017
101 Yorkville Avenue	Toronto, ON	**50%**	50%
2150 Lake Shore Blvd. West	Toronto, ON	**50%**	50%
816-838 11th Ave. (Glenbow)	Calgary, AB	**50%**	50%
King High Line	Toronto, ON	**50%**	50%
McLaughlin Corners	Brampton, ON	**50%**	50%
Midland (land)	Midland, ON	**50%**	50%
Rutherford Marketplace (Residential Inventory)	Vaughan, ON	**50%**	50%
Hunt Club – Petrocan	Ottawa, ON	**50%**	50%
Kanata Terry Fox (land)	Ottawa, ON	**50%**	50%
Hunt Club Marketplace	Ottawa, ON	**66.6%**	66.6%
Lachenaie Properties	Lachenaie, QC	**50%**	50%
South Oakville Properties (1)	Oakville, ON	**50%**	50%
Whitby Mall	Whitby, ON	**50%**	50%
Thickson Mall	Whitby, ON	**50%**	50%
Bow Valley Crossing (land)	Calgary, AB	**75%**	75%
Seton Gateway	Calgary, AB	**50%**	50%
Sherwood Park	Sherwood Park, AB	**50%**	50%
The Edmonton Brewery District	Edmonton, AB	**50%**	50%
West Oaks Mall	Abbotsford, BC	**—%**	50%
West Springs Village	Calgary, AB	**50%**	50%
216 Elgin Street	Ottawa, ON	**50%**	N/A
221 - 227 Sterling	Toronto, ON	**35%**	N/A
London Portfolio (2)	London, ON	**49.5%**	100%
Molson's Building	Calgary, AB	**75%**	N/A
1071 King Street West	Toronto, ON	**66.6%**	100%
200 Esplanade (Empire Theatres)	North Vancouver, BC	**50%**	100%

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

(2) London Portfolio includes Wellington Corners, Sunningdale Village, Byron Village, Hyde Park Plaza, Stoneybrook Plaza, and Adelaide Shoppers.

27. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

(a) Accumulated other comprehensive income (loss)

Year ended December 31			2018			2017
	Opening Balance January 1	**Net Change During the Year**	**Closing Balance December 31**	Opening Balance January 1	Net Change During the Year	Closing Balance December 31
Unrealized gains (losses) on investments in equity securities	**$ 45**	**$ —**	**$ 45**	$ 45	$ —	$ 45
Unrealized gains (losses) on cash flow hedges	**(5)**	**(4,528)**	**(4,533)**	(11,743)	11,738	(5)
Accumulated other comprehensive income (loss)	**$ 40**	**$ (4,528)**	**$ (4,488)**	$ (11,698)	$ 11,738	$ 40

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

Year ended December 31			2018			2017
	Before-Tax Amount	**Tax (Expense) Recovery**	**Net of Tax Amount**	Before-Tax Amount	Tax (Expense) Recovery	Net of Tax Amount
Unrealized gains (losses) on cash flow hedges	**(7,638)**	**2,032**	**(5,606)**	14,350	(3,817)	10,533
Reclassification of losses on cash flow hedges to net income	**1,468**	**(390)**	**1,078**	1,642	(437)	1,205
Other comprehensive income (loss)	**$ (6,170)**	**$ 1,642**	**$ (4,528)**	$ 15,992	$ (4,254)	$ 11,738

28. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

		Year ended December 31	
	Note	**2018**	2017
Straight-line rent adjustment		**$ (7,062)**	$ (2,684)
Investment properties selling costs	19	**2,556**	1,667
Realized (gain) loss on sale of marketable securities	19	**(4,232)**	1,165
Unrealized (gain) loss on marketable securities classified as FVTPL	19	**623**	(3,313)
Gain on below market purchase [1]	19	**(13,975)**	—
Transaction costs [1]	19	**2,052**	—
Net (gain) loss on prepayments of debt	19	**726**	3,032
Non-cash compensation expense		**5,226**	4,534
Deferred income taxes	20	**79,151**	125,101
Other non-cash items		**(23)**	(209)
Total		**$ 65,042**	$ 129,293

(1) In connection with acquisition of hotel property - Refer to Note 5.

(b) Net change in non-cash operating items

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

	Year ended December 31	
	2018	2017
Amounts receivable	**$ (10,954)**	$ (4,262)
Prepaid expenses	**1,120**	(935)
Trade payables and accruals	**3,838**	(5,008)
Tenant security and other deposits	**6,668**	4,214
Other working capital changes	**(7,046)**	(3,324)
Total	**$ (6,374)**	$ (9,315)

(c) Changes in loans, mortgages and other assets

	Year ended December 31	
	2018	2017
Advances of loans and mortgages receivable	**$ (112,015)**	$ (115,902)
Repayments of loans and mortgages receivable and deposits	**29,001**	10,718
Other investments, net	**(9,269)**	1,236
Investment in marketable securities, net	**(96,221)**	(17,910)
Proceeds from disposition of marketable securities	**97,988**	11,307
Total	**$ (90,516)**	$ (110,551)

(d) Cash and cash equivalents

As at	**December 31, 2018**	December 31, 2017
Cash and cash equivalents [1]	**$ 15,534**	$ 11,507

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

29. COMMITMENTS AND CONTINGENCIES

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

(b) The Company is contingently liable, jointly and severally or as guarantor, for approximately $152.2 million (December 31, 2017 – $119.1 million) to various lenders in connection with certain third-party obligations, including, without limitation, loans advanced to its joint arrangement partners secured by the partners' interest in the joint arrangements and underlying assets.

(c) The Company is contingently liable by way of letters of credit in the amount of $35.7 million (December 31, 2017 – $34.9 million), issued by financial institutions on the Company's behalf in the ordinary course of business.

(d) The Company has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately $1.2 million (December 31, 2017 – $1.2 million) with a total obligation of $23.6 million (December 31, 2017 – $24.1 million).

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

30. RELATED PARTY TRANSACTIONS

(a) Significant Shareholder

Gazit-Globe Ltd. (“Gazit”) is a significant shareholder of the Company and, as of December 31, 2018, beneficially owns 31.3% (December 31, 2017 – 32.6%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit.

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

	Year ended December 31	
	2018	2017
Reimbursements for professional services	**$ 186**	$ 228

As at December 31, 2018, amounts due from Gazit were $40 thousand (December 31, 2017 – $30 thousand).

(b) Joint ventures

During the year ended December 31, 2018, the Company earned fee income of $4.5 million (December 31, 2017 – $2.4 million) from its joint ventures.

During the year ended December 31, 2018, the Company also advanced $2.1 million (December 31, 2017 – $1.2 million) to one of its joint ventures.

(c) Subsidiaries of the Company

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

(d) Compensation of Key Management Personnel

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

	Year ended December 31	
	2018	2017
Salaries and short-term employee benefits	**$ 4,551**	$ 4,268
Share-based compensation (non-cash compensation expense)	**3,912**	3,162
	$ 8,463	$ 7,430

31. SUBSEQUENT EVENTS

First Quarter Dividend

The Company announced that it will pay a first quarter dividend of $0.215 per common share on April 18, 2019 to shareholders of record on March 29, 2019.